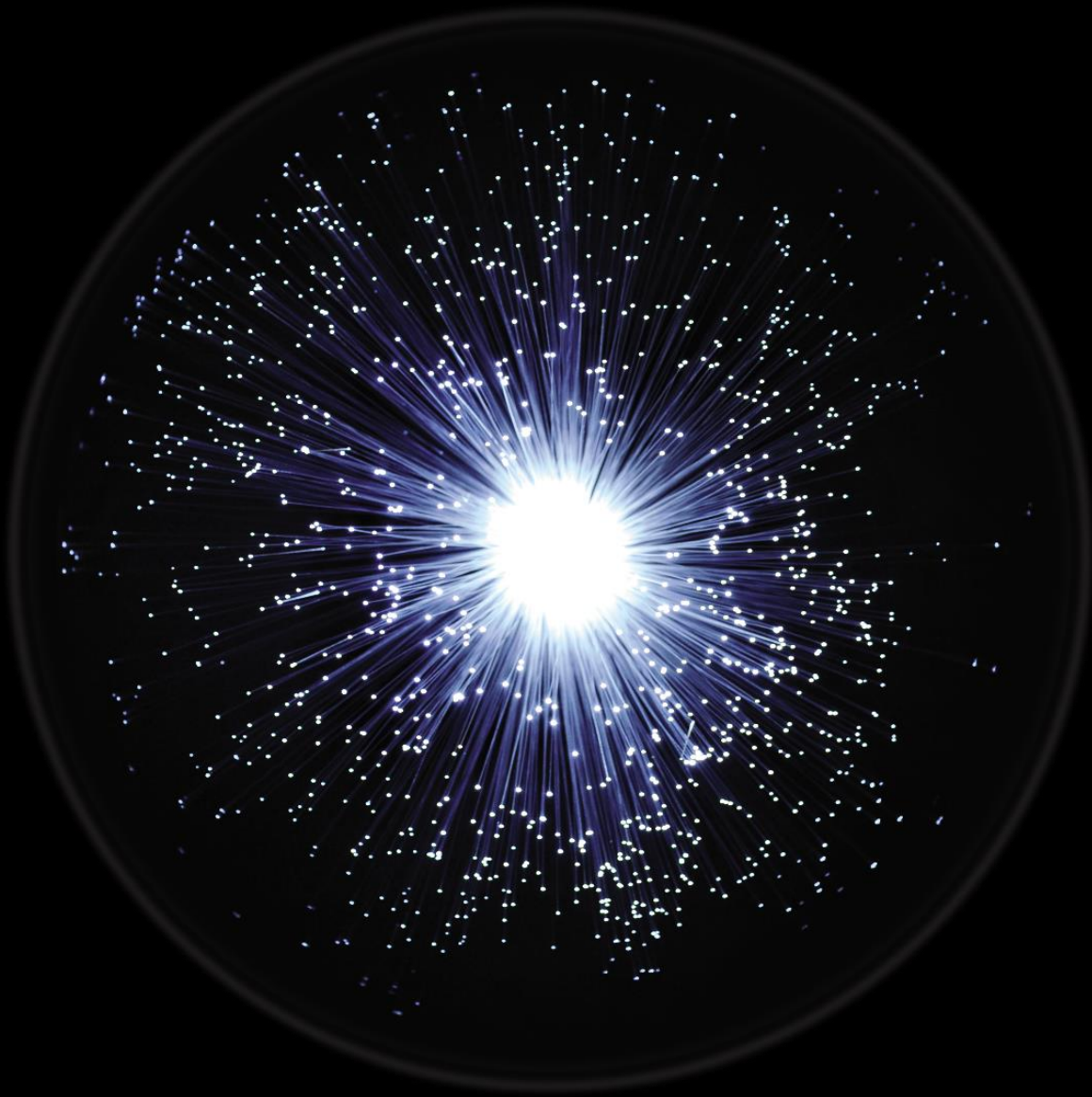


Deloitte.



M&A Making the deal work

Perspectives on driving merger and acquisition value

M&A
Institute

Dear reader,

Mergers and acquisitions continue to be a favored corporate development tool of executive teams, as evidenced by 2015 and 2016's record-setting level of deal-making. And while M&A may not continue at this pace, the trend seems far from abating. According to a recent Deloitte CFO Signals™ survey, many companies intend to continue combining for numerous strategic reasons, including expanding in existing markets and gaining scale efficiencies.

Is your company considering near-term M&A? If so, are you also considering the potential implications on functions including strategy, finance, information technology, human resources, tax, treasury, cyber security, sales and marketing, and supply chain? What opportunities and challenges in these areas might you face on the way to achieving post-M&A synergies?

For M&A to be successful you can't just make the deal; you have to make the deal work.

Whether you are involved in your first—or your hundredth—M&A deal, each one is unique. And Deloitte is here to help. As acknowledged by many industry analysts, our experience in assisting clients across industries and the full spectrum of M&A lifecycle activities is unmatched. If you're looking for a seasoned advisor with broad capabilities and real-world experience, we're ready.



Jeff Weirens

National M&A Services Leader
Mergers & Acquisitions
Deloitte Consulting LLP
jweirens@deloitte.com



Olivier May

Principal
Mergers & Acquisitions
Deloitte Consulting LLP
omay@deloitte.com

Table of contents

Introduction	1
Strategy	
M&A: A Critical Tool for Growth	4
The Crux of Corporate Strategy: Building an advantaged portfolio	6
Winning in M&A: How to become advantaged acquirer	19
Due diligence for synergy capture: Building deals on bedrock	24
Deal-making in Downturns: The “big, black cloud of slowdown” has a silver lining	28
Sales & Marketing	
M&A-driven sales & marketing: Know where to play and how to win	41
Supply Chain	
Supply Chain’s role in M&A: Achieving value creation through supply chain	53
Technology	
Informed IT integration: Three-phase approach can boost M&A synergy capture	58
Human Capital	
Driving value through HR integration: Get it right from the start	72
Lead with a winning hand: Positioning leaders for integration and transformation	80
Regulating the pulse of an M&A transaction from announcement through Day 1	82
People-related “must-do’s” for the first 100 days	86
Safeguarding M&A deal value: Managing culture clash	91
Using integration to catalyze HR transformation	98
M&A-driven organization design: Seven practices to help lock-in deal value	101
Finance	
Finance integration: Fine-tuning reporting capabilities for long-term M&A value	105
Tax	
Tax considerations during M&A integration: Shaping the new organization	108
Advisory	
Eight keys to a successful treasury integration	112
Don’t drop the ball: Identify and reduce cyber risks during M&A	121
Authors	126

Introduction

M&A Making the Deal Work

Making the Deal Work is a compendium of articles by Deloitte M&A professionals that provides guidance on a broad set of issues across the M&A lifecycle of strategy, due diligence, transaction execution, and integration. The articles are grouped by functional areas: Strategy, Sales and Marketing, Technology, Human Capital, Supply Chain, Finance, Tax, and Advisory. We hope you find the information we present in these articles to be helpful during your deal planning and implementation.

Strategy

M&A: A critical tool for growth

M&A's numerous potential benefits – building scale, improving a target's performance, removing excess industry capacity, and fueling long-term, profitable growth – dictate that it be viewed as an important arrow in the corporate quiver; ready to be loosed when needed. However, companies should not wait until an attractive target is in view to sharpen their M&A capabilities: proactive planning, building internal M&A capabilities and partnering with experienced advisors can improve the odds of hitting a strategic bulls-eye.

The Crux of Corporate Strategy

A central objective of corporate strategy is for executive management to define the businesses in which they should participate and the ways in which they create value within and across their businesses. Deloitte has found that the most "Advantaged Portfolios" exhibit three broad characteristics: they are strategically sound, value-creating, and resilient. This article explores the characteristics of an Advantaged Portfolio and its trio of attributes, and shares the process to get there.

Winning in M&A: How to become an advantaged acquirer

Factors that have been driving M&A for the last few years—low interest rates, accessible and inexpensive financing, healthy balance sheets, and an economy that's growing at less than four percent annually—remain intact. However, winning and creating value in this environment may require something more: a set of detailed action steps to help companies proactively identify and transact strategic deals rather than reactively pursue disparate, ad hoc opportunities. This article examines some common buyer mistakes during merger waves and suggests ways that companies can potentially avoid them by becoming advantaged acquirers.

Due diligence for synergy capture

As corporations and private equity (PE) firms consider mergers and acquisitions that will combine operations, they generally rely on high-level, top-down assumptions to identify cost synergies that are built into valuations. Yet these same organizations are often surprised when assumed post-deal operational improvements aren't as significant as planned or take longer than expected to realize.

Synergy-capture diligence, a bottom-up approach that puts management's skin in the game early on, can verify where specific cost reductions may be achieved. Such diligence can help justify valuations, drive early alignment around the new operating model for the combined businesses, and build a blueprint for accelerating synergy capture during post-merger integration.

Deal-making in downturns: The "big, black cloud of slowdown" has a silver lining

Common wisdom holds that acquisitions should be pursued when the economy is strong and companies are flush with cash, a strategy termed "buy rich." However, during market downturns, strategically focused companies can challenge the status quo and disrupt stagnant thinking by using M&A to create new avenues for significant

growth, shareholder value, and competitive advantage. Implementing a successful M&A strategy during these periods requires sufficient balance sheet capacity; reasonable expectation that there will not be investor backlash against a deal during a period of heightened uncertainty; and attractive targets that are also willing sellers.

Sales & Marketing

M&A-driven sales and marketing: Know where to play and how to win

A company's Sales & Marketing organization can play an essential role in helping to capitalize on growth opportunities across the pre-deal and post-deal phases of an M&A transaction. This is particularly true when company executives are aligned to and guided by a Sales & Marketing growth framework that aids decision-making around "where to play" and "how to win." This framework should help executives identify and validate growth opportunities; tie these to the newly combined company's go-to-market strategy; strengthen customer-related functions; and facilitate functional readiness across the enterprise.

Supply Chain

Supply Chain's role in M&A: Achieving value creation through supply chain

Supply chain synergies are a significant source of potential M&A deal value. In addition, a transformed, integrated supply chain can be a critical enabler of long-term corporate growth and market competitiveness. To meet synergy goals, supply chain executives should proactively identify potential sources of value during a transaction's due diligence and pre-close phases, and take early advantage of Clean Rooms and external advisors to support the immediate launch of post-Day 1 synergy projects.

Technology

Informed IT integration: Three-phase approach boosts M&A synergy capture

One of the biggest challenges during M&A-driven IT integration is to quickly deliver on a transaction's strategic business objectives while making sure that both companies' day-to-day operations continue uninterrupted during the rapid countdown to Legal Day 1 (LD1). Early planning, ongoing collaboration between IT and business functions, and efficient implementation of a three-phase M&A IT integration lifecycle approach can help head-off potential issues and boost post-deal synergy capture.

Human Capital

Driving value through HR integration: Get it right from the start

The evidence is overwhelming: Acquiring companies can neither focus too much nor too early on an M&A transaction's people implications. Early involvement by a company's Human Resources function can help to optimize a deal's financial and operational synergies. HR can share vital business information and expertise that may influence the identification of potential partners, the structure of the deal, effective timing for key decisions and milestones, and development of strategies to support a smooth integration. HR executives can also lead the organization's efforts to identify potential business and human capital risks, and shape the strategy and integration plan.

Lead with a winning hand: Positioning leaders for integration and transformation

An M&A deal provides a rare opportunity to bring together the very best people, products, and operations into one organization; to create more value in months than in-house development can in years. However, success often hinges on executives' ability to lead with a winning hand; to engage the workforce and lead proactively, positively, and enthusiastically throughout the transaction lifecycle

– including post-deal integration and organizational transformation. Preparing leadership to do so involves defining the new operating model, assigning each leader's role in the new organization, tailoring messages to address concerns of key audiences, and providing rigorous training and practice sessions

Regulating the pulse of an M&A transaction from announcement through Day 1

Effective communication is the key to maintaining organizational stability in the face of M&A-driven change and ambiguity. The pulse of a deal lies in the timing and mix of corporate messages; the challenge is to regulate this pulse by providing message clarity and consistency. To structure and sustain these efforts, Human Resources (HR) and Communications staff should focus on sharing the facts and promoting employee understanding of the deal; talking to leaders; setting the stage for a positive employee experience; and establishing communications governance.

People-related "must-do's" for the first 100 days

Enabling a smooth employee transition – especially during the first 100 days after an M&A deal closes – correlates very highly with an acquisition's overall success. Regardless of which integration approach a company selects, when HR staff members focus on several critical people-related "to-do's" they can help new employees smoothly integrate into the organization and cool the water cooler chatter. Focus areas include: supporting a positive and seamless onboarding experience; having a combined leadership team that is visible, accessible, and aligned with one another; engaging with employees to get them excited about the future of the combined company; and outlining long-term goals for the integration.

Safeguarding M&A deal value: Managing culture clash

Performance is always a top-of-mind issue for executives; even more so during a

merger and/or acquisition because M&A transactions are subject to increased investor scrutiny. Failure to address culture during M&A can impact a company's performance in subtle ways: integration delays due to cultural inhibitors, a decline in productivity and innovation, or increased employee turnover. Companies should consider culture as one of the key levers they can pull to sustain and improve post-M&A performance. By effectively understanding and shaping their culture, executives can drive business strategy and achieve their operational and financial objectives.

Using integration to catalyze HR transformation

Merger and acquisition transactions often place significant stress on an organization and its employees. Whether the transaction is a small bolt-on or a large "merger of equals" the newly combined population and HR's M&A-related synergy expectations often make transformation a necessity – even though HR typically will be expected to do more while also spending less. Yet, with the proper mix of planning, process, and execution, HR leadership can harness the integration's momentum to transform the function, optimize HR's service delivery model, and better support the new business and its employees.

M&A-driven organization design: Seven practices to help lock-in deal value

Once an M&A deal is finalized and the dust settles HR executives typically face the complex task of implementing numerous operating model and organization changes to realize expected deal value. Seven leading practices – applicable in virtually all industries and deal types – have been shown to consistently drive value from post-Day 1 organization design. Incorporating these practices can help corporate and Human Resources leaders find the right balance between locking in short-term deal value and positioning the future-state organization for long-term success.

Finance

Finance integration: Fine-tuning reporting capabilities for long-term M&A value

Throughout an M&A integration, the appropriate level of focus on reporting capability will allow management and business leaders to make effective decisions that support both the long-term goals of the organization and the synergy targets of the deal. The initial focus for public companies should be on the deal's impact on external reporting and the ability to close the books in a timely manner to meet SEC requirements and investor expectations. After satisfying external reporting requirements, attention should shift to providing business leaders with access to necessary financial data, eliminating the role of the acquired company's systems, and assessing the impact of the integration on support functions.

Tax

Tax considerations during M&A integration: Shaping the new organization

Tax executives should lobby for a seat at the table with their C-suite counterparts during M&A integration planning, for they can offer important insights and recommendations to accomplish strategic tax goals associated with the transaction. Their involvement should begin early, extend through the integration lifecycle, and address key business decisions, synergy prioritization, legal entity readiness, and countdown to Day 1.

Advisory

Eight keys to a successful Treasury integration

C-suite executives expect today's Treasury organization to serve as a strategic advisor to Finance, the Chief Financial Officer (CFO), and the overall business. Included in Treasury's evolving role is providing strategic support for M&A transactions, especially post-deal integration. Showcasing Treasury's ability to manage debt, mitigate risk, unlock cash, and drive cross-functional alignment during an integration can lay the groundwork to expand the function's footprint and support continued value creation.

Don't drop the ball: Identify and reduce cyber risks during M&A

As if M&A deal teams didn't have enough balls to juggle during a transaction's lifecycle, today's complex and porous digital marketplace is tossing in one more—increased cyber risk. Every stage of M&A—strategy, screening, due diligence, transaction execution, and integration—is subject to heightened risk for cyber threats and attacks which, if not discovered and defused, could harm both acquirer and target...and even scuttle the deal. A dedicated cyber risk management team can provide strategic value at each stage by assessing, identifying, and reducing potential cyber security risks prior to and after deal close

M&A: A critical tool for growth

By William Engelbrecht and Tanay Shah

Global merger and acquisition (M&A) activity hit a record high of \$4.7 trillion in 2015 and continued its momentum in the first half of 2016 reaching \$1.7 trillion.¹ Although that may prove to be the high-water mark for deal flow, a majority of corporate executives and private equity (PE) professionals nonetheless expect deal activity to remain strong in 2016.² Conducive macroeconomic conditions have helped fuel the boom, but astute observers can see an evolving strategic rationale for deal-making.

M&A can be an important means for building scale, improving a target's performance, or removing excess industry capacity, and can fuel long term, profitable growth. M&A's numerous potential benefits dictate that it be viewed as an important arrow in the corporate quiver; ready to be loosed when needed. However, companies should not wait until an attractive target is in view to sharpen their M&A capabilities; proactive planning can improve the odds of hitting a strategic bulls-eye. In fact, Deloitte's *M&A Trends Report 2016: Our annual comprehensive look at the M&A market*,³ found that corporations are placing more emphasis on developing an M&A strategy in 2016.

The sluggish pace of global economic growth enhances the attractiveness of M&A. In addition, sustained low interest rates, strong US equities markets, cash-rich balance sheets, and increasing business confidence give companies the ability and attitude to pursue deals as a means to grow. In fact, executives' most commonly cited reasons for engaging in M&A are growth-oriented: accessing new customer bases, gaining entry into new geographic markets,⁴ and expanding products and services.⁵

Access to new intellectual property (IP) is also an important driver of growth-oriented deals, especially in highly innovative industries such as pharmaceuticals and technology, where IP is a company's lifeblood. Case in point: Over the past five years, the cost to develop a pharmaceutical asset has increased by roughly a third, while average peak sales for the industry have fallen by 50 percent over the same period.⁶ M&A provides an additional means of bringing promising therapies into a pharma company's portfolio.

Meanwhile, big technology firms are making headlines for their deal activity (and a fair number of deals are not disclosed or publicized). For instance, a major social media platform company has completed more than 50 deals in its short history, with recent acquisitions adding capabilities in e-commerce, virtual reality, speech recognition, and other fields. Some companies' portfolio of IP-related acquisitions is even more eclectic. Adding credence to this trend, Deloitte's latest corporate development survey reveals that the pursuit of innovation is transforming the M&A landscape. Roughly two thirds of corporate development leaders who responded to the survey said their function has become a more important source of innovation over the past two years, and nearly 60 percent of executives believe that the volume of innovation-centered deals will increase over the next two years.⁷

In the midst of this boom, it is worth remembering that not all M&A deals add value. Thirty-nine percent of corporate respondents and 56 percent of private equity (PE) respondents said that more than half of their transactions completed over the past two years had not generated expected

returns.⁸ However, reported failures should not necessarily discourage companies from pursuing M&A. Well-developed due diligence, valuation, and integration capabilities can anchor an effective risk mitigation strategy. There is enough knowledge and experience among the M&A community and associated professionals that properly prepared acquirers can expect to gain considerable financial and competitive value from their M&A pursuits.

M&A is expected to remain a critical tool for growth and long-term shareholder value-creation. Management teams planning to engage in strategic deal-making should focus on building internal M&A capabilities and partnering with experienced advisors to improve their chances of hitting a bulls-eye.

End Notes

1. "Will the New Year be 'Sweet '16' for Deals?" The Wall Street Journal, December 31, 2015, <http://www.wsj.com/articles/will-the-new-year-be-sweet-16-for-deals-1451557804>. Cited in M&A Trends Report 2016: Our annual comprehensive look at the M&A market, Deloitte, 2016
2. M&A Trends Report 2016: Our annual comprehensive look at the M&A market, Deloitte, 2016
3. From February 19 through March 15, 2016, a Deloitte survey conducted by OnResearch, a market research firm, polled 2,292 executives at US companies and private equity firms to gauge their expectations, experiences, and plans for mergers and acquisitions in the coming year.
4. M&A Trends Report 2015: Our annual comprehensive look at the M&A market, Deloitte, 2015
5. M&A Trends Report 2016: Our annual comprehensive look at the M&A market, Deloitte, 2016
6. Measuring the return from pharmaceutical Innovation 2015: Transforming R&D returns in uncertain times, <http://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/measuring-return-from-pharmaceutical-innovation.html>
7. Corporate development strategy: Thriving in your business ecosystem, Deloitte University Press, 2016, <http://dupress.com/articles/corporate-development-strategy-survey/>
8. M&A Trends Report 2016: Our annual comprehensive look at the M&A market, Deloitte, 2016

The Crux of Corporate Strategy

Building an advantaged portfolio

By Mike Armstrong, Jonathan Goodman and Gavin McTavish

One of the central objectives of corporate strategy is for executive management to think holistically about a company's portfolio of businesses—conceiving and spearheading ways to make the aggregate value of a company's holdings durable over time, and greater than the sum of its parts. This vital mission comprises two central questions: In which businesses should we participate? And, how do we create value within and across¹ our businesses? In other words, where will we play and how will we win², at the portfolio level?

Monitor Deloitte has found³ that the most successful portfolios typically exhibit three broad characteristics: They are *strategically sound*, *value-creating* and *resilient*. Perhaps this seems obvious. But in our experience—maybe because it requires consideration and testing across a wide range of attributes—companies seldom apply this tripartite “Advantaged Portfolio” approach.

In this paper, we explore the characteristics of an Advantaged Portfolio and the trio of attributes that constitute each (Figure 1). These attributes in aggregate are key to fully assess, assemble and maintain a top-performing corporate portfolio. A company may need to include additional company-specific criteria to meet its specific goals and aspirations,⁴ and the specific weighting of attributes will vary by company. But the nine attributes noted in Figure 1 are “default” criteria that may be relevant in a wide range of portfolio contexts.

Executives, academics and consultants have devised numerous frameworks for building and sustaining an optimal corporate portfolio. Our experience suggests that any successful portfolio design framework (as distinct from the portfolio itself) should have three important features: It should be multi-dimensional in its criteria because portfolio evaluation and construction cannot be reduced to a simple 2 x 2 matrix; it should focus on the performance of the portfolio

as a system (i.e., how the parts interact), not just on the individual components; and it should be tailorable to the company in question, since each company has different goals and aspirations. The Advantaged Portfolio framework is designed to meet these criteria.

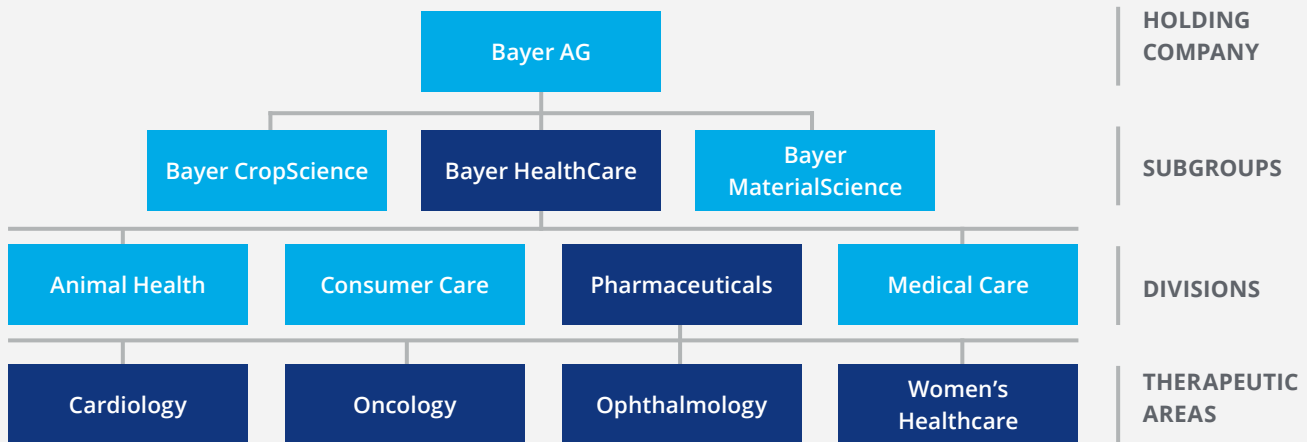
Figure 1: Characteristics of an Advantaged Portfolio



What Is a Portfolio?

In a corporate strategy context, a portfolio is the collection of businesses than an organization chooses to own or invest in. Portfolios can exist at multiple levels within a company. In a corporate-level portfolio, the unit of analysis is the strategically distinct business (SBD), each of which has distinct competitors, geographies, etc. SBDs may or may not correspond to a company's organizational business units or reporting units. Portfolios also can exist within a business unit, a division, or even a product line, as depicted in Figure 2 by Bayer AG's multiple sets of portfolios. The correct unit of analysis for a portfolio will change based on the level of the portfolio being assessed.

Figure 2: Portfolios Can Exist at Multiple Levels of an Organization



An advantaged portfolio should be strategically sound



An Advantaged Portfolio, first and foremost, should be strategically sound. That means it should foster a strong competitive position, support multiple levels of innovation, and create synergy.

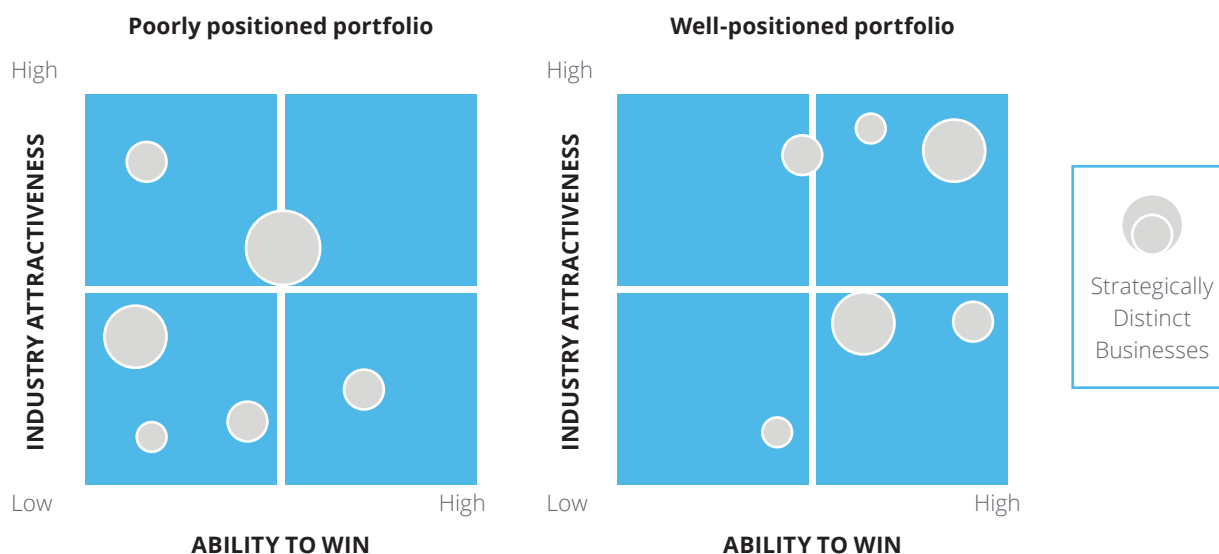
Competitively Positioned

When a portfolio is competitively positioned, its businesses in aggregate participate in more structurally attractive markets and can more effectively compete in their chosen markets. Even in the context of blurring industry boundaries, the concept and applicability of structural attractiveness endures. According to Michael Porter, in his book *Competitive Strategy*, industry attractiveness is a function of five forces: competitive rivalry, the bargaining power of buyers and suppliers, the threat of new entrants, and the threat of substitution.⁷ The simple fact is that some industries or segments are more likely to support higher returns over time than others.⁸ Of course, a company is able to realize the full potential of any industry or segment by winning—i.e., being better than competitors at both creating and capturing value for customers.

Thus, an effective portfolio is weighted in favor of structurally attractive markets in which the company has a demonstrated ability to win (Figure 3). Portfolios that are more widely distributed—or worse, weighted toward structurally unattractive markets with no (or no enduring) advantage—are far less likely to produce attractive returns over time.

In their recent book, *Playing To Win*, A.G. Lafley and Roger Martin set out a clear and pragmatic strategic framework based on the Strategic Choice Cascade, a demonstrated approach to addressing strategy as a set of five interrelated questions, including: Where will an organization play? And, how will they win? The framework was developed over 20 years by strategy consulting firm Monitor Group and used by hundreds of organizations. It provides a powerful approach to thinking about strategic choice and action.

Figure 3: Competitive Position Matrix



Balances Innovation

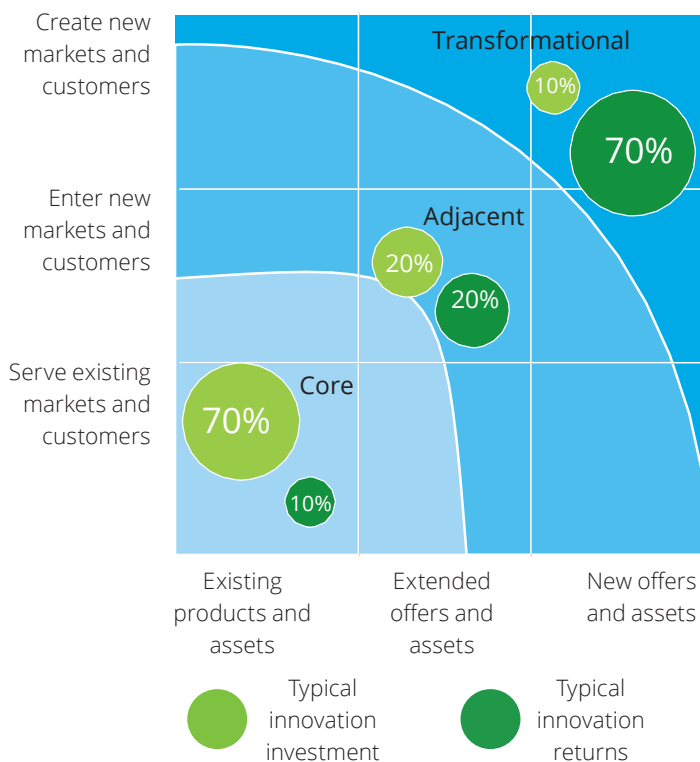
To be strategically sound, portfolios should also reflect an appropriate blend of innovation opportunities. The idea is to sow the seeds for growth across various time horizons (short, medium, and long-term) and various levels of risk and reward in line with a company's ambition and risk tolerance. As shown in Figure 4, innovation opportunities can be classified as core, adjacent or transformational, depending upon how far they diverge from existing offerings and customer base. A "core innovation" is an incremental improvement to an existing product targeted at existing customers. A "transformational innovation" is an initiative focused on offering new products to new customers or to serve needs that have never been expressed.

There is a "Golden Ratio" for allocating innovation investments. According to Monitor Deloitte research published in the *Harvard Business Review*,⁹ companies that allocated about 70 percent of their innovation activity to core initiatives, 20 percent to adjacent initiatives, and 10 percent to transformational initiatives outperformed their peers—typically realizing a P/E premium of 10 to 20 percent. The ratio is an average across industries and geographies and the right balance will vary by company. A technology company, for example, likely will find a greater investment in adjacent and transformational innovations to be optimal.

Interestingly, the same research data show that the ratio of returns on investment is roughly the inverse of the ideal investment allocation: core innovations typically generate 10 percent of the returns on innovation investment, adjacent efforts generate 20 percent and transformational generate 70 percent.

An Advantaged Portfolio will support a spread of innovation initiatives across core, adjacent and transformational horizons, consistent with the degree of threat and opportunity presented by disruptive technologies, disruptive business models, or competitive activity in the industries represented in the portfolio. In so doing, the portfolio will typically improve the competitiveness of the enterprise in the short, medium and longer terms.

Figure 4: The Innovation Ambition Matrix and Associated Returns on Innovation Investment



“Given the time and investment it takes to create a transformative innovation, we are always working on multiple ideas at any point in time. [Procter & Gamble’s] Gillette organization is masterful at managing S-curves in blades and razors. As one transformative platform is being launched, the next two platforms are already being designed. In between new platforms their innovations extend the advantages and build on Gillette’s outstanding equity.”¹⁰

—Kathleen Fish, Chief Innovation Officer, Procter & Gamble

Creates Synergy

Synergy is a well-worn term that is all too often used to justify acquisitions or the presumed soundness of an existing corporate portfolio. But for a corporate entity to create value over time, it should add value above and beyond that which could simply be created (and captured) within its existing stand-alone businesses. In other words, the value of the whole should be greater than the sum of the parts. In this context, Advantaged Portfolios create, support or reinforce synergy across at least one of the following four dimensions (and often across several):

- *Management-oversight synergies* can be created by using enhanced management processes and skills in the corporate center to boost the top line or reduce costs across the SDBs. Examples include sophisticated target and incentive setting; exemplary training and recruitment; and superior treasury and capital allocation processes.

- *Horizontal synergies* are typically produced in two ways: applying valuable assets and capabilities resident in one business to other businesses in the portfolio, or combining assets and capabilities in different businesses to create new value. Examples include joint purchasing, joint R&D, brand extensions, and sharing best practices.
- *Downward synergies* can come from leveraging the parent company’s assets in the business units. Examples include access to the parent’s balance sheet, extending the parent brand to the BUs; and access to parent networks and relationships.
- *Portfolio system synergies* refer to the value created when a portfolio’s parts interact with each other as a system. Examples might include combining countercyclical businesses to dampen excessive volatility or vertically integrating key operations to address failed supply or demand markets.

Articulating the synergies in a portfolio is not only necessary when designing a new portfolio. It is increasingly important for day-to-day portfolio management as shareholders, and activist investors in particular, ratchet up the pressure on public companies. In many cases of shareholder activism, the portfolio’s composition is at issue.¹¹ Management should be able to explain clearly and concisely why the company’s various businesses create more value together than apart.

“Synergies are not only about cost reduction. Synergies can be access to markets, exchange of products, avoiding overlaps, and exchange of best practices.”¹²

—Carlos Ghosn, Chief Executive Officer and Chairman, Renault Nissan

An advantaged portfolio should be Value-Creating



The second core characteristic of an Advantaged Portfolio is that it should create more value than alternative portfolio options. But that value should be viewed through three lenses to help provide a clear picture: intrinsic value, capital markets value, and the value of the assets to other owners. Focusing on any one to the exclusion of the others risks overlooking value-creation opportunities, if not destroying value outright. It's important for a company to consider and balance all three

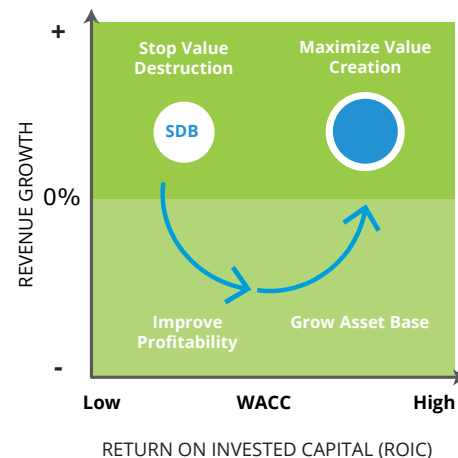
Maximizes Intrinsic Value

Intrinsic value can be best represented by the risk-adjusted cash flows (net of investments) a corporation's existing (and expected future) businesses produce, and is best measured by discounted cash flow (DCF) analysis. An Advantaged Portfolio is simply one whose intrinsic value is greater than that of competing portfolio options, all other things being equal.¹³ Moreover, value is created over time by improving intrinsic value—whether by increasing returns on existing capital employed, consistently investing new capital to generate returns that exceed a company's cost of capital, or by releasing unproductive capital. Hence an Advantaged Portfolio is one that lends itself to increasing intrinsic value—which, typically, is more likely if the portfolio in aggregate is competitively positioned (as described earlier).

As with any attribute of an Advantaged Portfolio, maximizing intrinsic value should start with evaluating the current portfolio's performance. This involves assessing where value is being created or destroyed within the portfolio, which requires looking at the two critical drivers of intrinsic value: the revenue growth and return on invested capital (ROIC) of each component business.

This is a critical step in forming preliminary views on how to treat each business going forward: Should we reduce investment or increase it? Do we need to fix performance first? (See Figure 5). The second, and typically more difficult step of maximizing intrinsic value comes in constructing the new portfolio. Management should conceive different portfolio options, estimate and aggregate the cash flows of each component business, and layer in *both the synergies and dis-synergies inherent in each option*. For instance, what is the value of cross-selling Business 1 products into Business 2? What input cost synergies can we get from combining procurement activities across businesses? What are the tax implications if we exit Business 3? Done effectively, an Advantaged Portfolio maximizes these aggregate cash flows.

Figure 5: Intrinsic Value Creation



“Intrinsic value [is] an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.”¹⁴

—Warren Buffet, Chief Executive Officer, Berkshire Hathaway

One of the mistakes we see all too often in public companies is excessive management focus on how investors value the portfolio. While a company must address the current market value of a portfolio in certain circumstances (which we describe below), it can maximize long-term shareholder value through a ruthless focus on enhancing intrinsic value—i.e., the present value of expected future cash flows

Address Capital Markets

As already noted, intrinsic (DCF) value should be the primary metric for assessing the value of a portfolio and different portfolio options. However, market value cannot, and should not, be ignored; it can be as important as intrinsic value in certain circumstances. In theory, market value (driven by market expectations) should align with intrinsic value. In practice, the two measures of value can diverge at a given moment for reasons not related to business performance. For example, a bidding war in a consolidating sector may cause a listed company's equity to trade above its intrinsic value. Conversely, a large-bloc shareholding in the company that constrains trading liquidity may drive down the share price. In such cases where intrinsic and market values diverge, a company may have to (or wish to) make changes to its portfolio that it would not otherwise make.

A significant under-valuation of a business in the capital markets can actually hurt intrinsic value (e.g., by reducing financing options) and in extreme cases can jeopardize a company's independence (e.g., by increasing exposure to a hostile bid). Similarly, if management believes a firm's equity is over-valued in the market, the firm might consider using that valuable equity currency to fund acquisitions that it otherwise might not make. Such over- and under- valuations often occur when the portfolio contains businesses that trade at markedly different multiples. In these cases, portfolio moves may be warranted due to changes in market values, despite no change in underlying cash flows and associated intrinsic value. An Advantaged Portfolio is guided by intrinsic value creation but is not blind to potential threats or opportunities created by the capital markets.

Find the Right Owner

When management identifies the option that both maximizes intrinsic value and addresses capital markets pressures, value will be maximized, right? Not so fast.

Even if a portfolio owner is creating significant intrinsic value for a business, the owner may not be creating as much value as another owner could. A financial buyer might be able to extract more value from the same assets through leverage and financial engineering. A competitor might have an adjacent business through which it could create synergies the current owner cannot. In such cases, the current owner should consider selling the under-exploited business for full value to the value-maximizing party, sometimes called the "natural owner." The proceeds could then be paid out to investors or re-invested into higher-potential businesses—businesses for which the company is truly the value-maximizing owner.

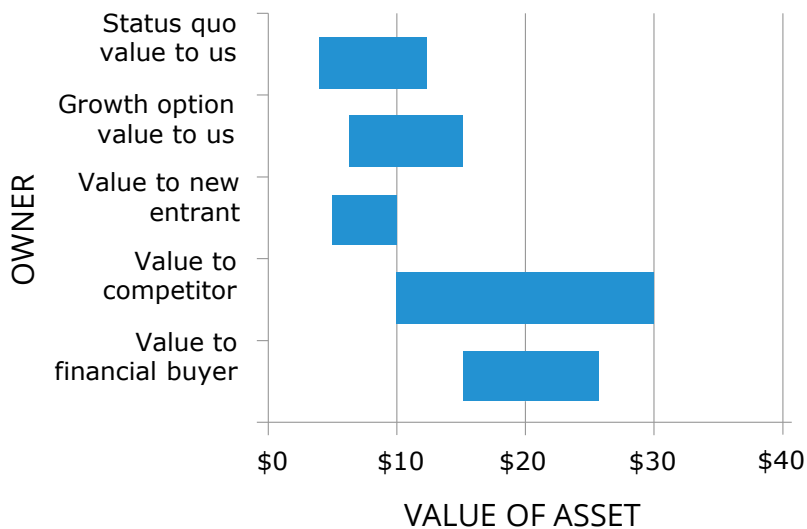
Slow-growth, cash-generative businesses used to be seen as necessary sources of financing for higher-growth businesses in the portfolio. However, with the rise of private equity and other specialized market players, the capital markets have created multiple means of monetizing these "cash cows," often for even greater value than the current owner could generate from the asset. Unless capital markets are particularly tight and financing and M&A are constrained, companies should not feel compelled to keep a business unit just because it generates cash. Generating cash by selling an asset may in fact be the best way to maximize value.

As executives evaluate or redesign their portfolios, they should consider the potential stand-alone value of each business to different potential buyers and compare those values to the intrinsic value of keeping the business within the portfolio, as illustrated in Figure 6. On balance, over time, an Advantaged Portfolio will consist of assets for which the current owner is the value-maximizing owner.

"As separate publicly traded entities, each company should benefit from enhanced management focus, more efficient capitalization and increased financial transparency. In addition, shareholders will have a more targeted investment opportunity, and incentives for management and employees will be more closely aligned with company performance and shareholder interests. Given these advantages, we are confident that this transaction will enable Brink's Home Security (BHS) and Brink's, Inc. to more quickly realize the valuations they deserve."¹⁵

—Michael Dan, Chairman, President and Chief Executive Officer, The Brink's Company in discussing the pending separation of his two businesses

Figure 6: Assessing the value of an asset to different owners

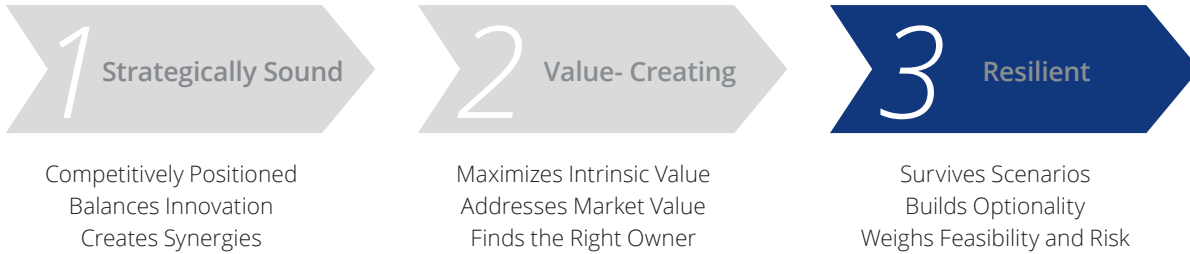


“We are trying to be as intellectually honest as we can with ourselves and look at each operation on a present value basis. And just as [CEO Joe Quarin] has said repeatedly, if we are not the best owners, find out who is.”¹⁶

—Ian Kidson, Executive Vice President and Chief Financial Officer, Progressive Waste Solutions



An advantaged portfolio should be Resilient



An Advantaged Portfolio should be not only strategically sound and value-creating, it is also resilient. In our experience, matters of risk and resilience are among the most overlooked, and least understood, dimensions of portfolio evaluation and design. However, they also are among the most important

Three attributes define resilience.

Survives Scenarios

We live and operate today in a period of great change and uncertainty. With shifting economic conditions and the possible consequences of massive disruptive technologies, no one can be certain how customer needs, competitive dynamics, or industry boundaries might change. In some instances, executives deny uncertainty; in others, they become paralyzed by it. The trick is to confront uncertainty, especially when assessing and designing corporate portfolios. In this context, an Advantaged Portfolio is one that—in aggregate—is more likely to perform well in a variety of different, plausible, future environments, not just one that might reflect an executive team’s official future.¹⁷

Leading-practice companies use scenarios to stress-test the performance and risk of individual businesses and portfolios overall. Scenarios go beyond simple sensitivity analyses (for example, deviations of 5 to 10 percent from some base-case forecast). They describe coherent stories about how the relevant macro environment might evolve very differently five, 10 or 15 years in the future, and illustrate the potential

consequences for industry dynamics and boundaries, customer interactions, or the winning business models

A company should create a number of scenarios and portfolio options, and evaluate the likely value of the options in each scenario. Consider the example in Figure 7. In this instance, the status quo option appears to do well in only one of the scenarios (Scenario 4). It thus is less robust than Option 3, which does well in two. Scenarios not only serve an evaluative purpose. They also play a creative role, helping companies to generate novel strategies and portfolio options.

“We’re testing our portfolio under different scenarios and... we’ll see that we have a resilient portfolio with flexibility to adapt if circumstances warrant. Now some things might change, but here’s what’s not going to change. We’re going to allocate capital prudently. We’ll continue to migrate our portfolio to a lower cost of supply. We’ll maintain capital and financial flexibility and we’ll pay our shareholders first.”¹⁸

—Ryan Lance, Chairman and Chief Executive Officer, ConocoPhillips

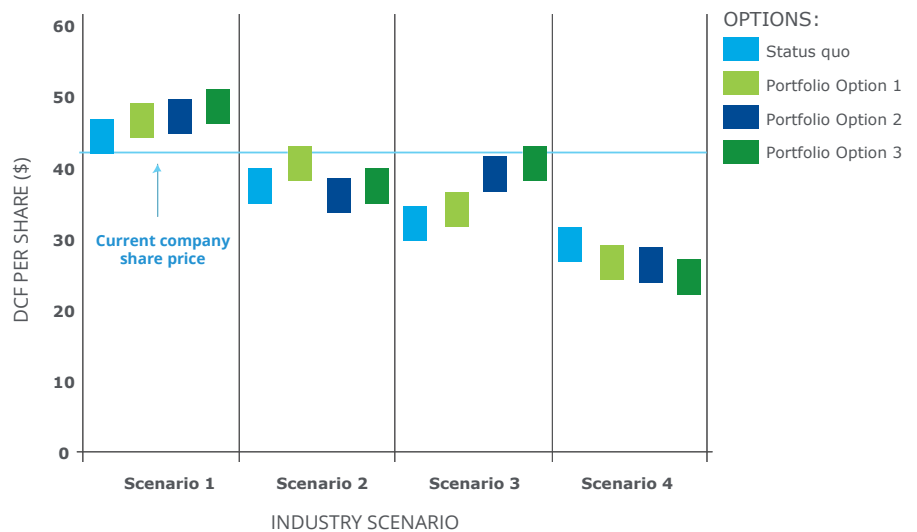


Figure 7: Discounted Cash Flow Value of Strategic Options by Scenario

Builds Optionality

Executives tend to think their strategies' success hinges largely on a particular event (availability of an acquisition target; passage of a law; successful test of a technology, etc.). However, these events may not happen for some time (if at all), and their final form or effects might be less desirable than what the company had hoped. Moreover, as described earlier, significant uncertainty is pervasive across industries and geographies. An Advantaged Portfolio prudently builds optionality into its portfolio choices, thus enabling multiple potential routes to value in the future. Several tools can help create such optionality:

- **Stage-gating:** mapping strategic choices a company will have to make as various industry events occur or fail to occur ("if/then");
- **Defining transaction pathways:** mapping alternative deal sequences a company could pursue depending on the success or failure of specific desired acquisitions; and
- **Identifying trend triggers:** identifying the leading indicators of critical trends so a company can dynamically adjust a portfolio over time.

It might be asked whether building optionality runs afoul of the idea of commitment – the idea that you should choose one path rather than many, and do the one thing well. In this case, the answer is no, because the optionality we are dealing with here is different. Optionality in the Advantaged Portfolio sense involves hewing to one path that has many forks, and taking one of those forks when a defined event occurs. It helps keep a company on one path at a time, preventing it from "letting a thousand flowers bloom" with the attendant costs of watering them all.

Weighs Feasibility and Risk

Ultimately, considering, constructing and refining a corporate portfolio is an exercise in weighing feasibility and risk. Feasibility addresses the challenges of constructing a new portfolio. Can we finance it? Does management have the bandwidth to create

it? Are there targets available with the assets we need? Risk addresses the potential for unfavorable developments once the portfolio is created. Will competitors launch a counter-measure? How much does the portfolio depend on the success of a new technology? Will the regulatory environment change? The portfolio of today, indicative of a company's current strategy, constitutes a certain risk profile. Alternative portfolio options present different risk profiles in both the nature and magnitude of risk. An Advantaged Portfolio is one whose feasibility and risk are more attractive than alternative portfolios, given the company's ambition and risk appetite.

In this respect, a company should be comprehensive in considering the types of feasibility and risk (see Figure 8 below), recognizing many executive teams tend to underestimate the risk of the status quo and overestimate the risk of doing (or in this case, constructing) something different.¹⁹

"I can't take the risk of choosing the 'double down in the core' portfolio or a 'step-out' portfolio today. I need to know whether I can get the necessary deals done for each before I commit one way or the other. I need the option to go either way depending on what we learn."

—Chief Executive Officer,
Electronic Materials Company

Figure 8: Sample Risk-Assessment Framework

Sample dimensions	Portfolio option X	Portfolio option Y
Feasibility (pre-build)		
Ability to Finance	HIGH	LOW
Availability of Targets	MED	MED
Antitrust Feasibility	HIGH	LOW
Management Executability	HIGH	HIGH
Risk (post-build)		
Competitive Reaction	LOW	LOW
Technology Risk	MED	MED
Regulatory Risk	HIGH	HIGH
Capital Markets Reaction	MED	HIGH
M&A Integration	LOW	LOW
Macroeconomic Risk	MED	LOW

Importantly, a company should address feasibility and risk both at the component and the portfolio or system levels. For instance, the component parts of the portfolio may be executable individually, but may not be manageable in aggregate. Portfolio-level risks are not always, however, simply an aggregation of individual risks. Aggregate portfolio risk, for example, can be lower than the individual risk levels of the BUs, if the BU profit curves are counter-cyclical or uncorrelated in nature and effectively “smooth” the aggregate portfolio’s profit performance.

A Case in Point: Disney

Disney is a notable example of a company in which successive generations of executive management (starting from Roy Disney himself) have carefully considered, constructed and nurtured an Advantaged Portfolio. Leveraging its historic core capabilities in character-development and animation, Disney has built very successful positions in five related

businesses: animation, parks and resorts, cable channels, consumer products, and interactive media. Its portfolio is strategically sound—most of its five business units are among the leaders in their industry, and they are knitted together with clear synergies.

For example, its animated characters populate its theme parks, media networks and merchandise. And two recent acquisitions—Marvel and LucasFilm²¹—have not only advanced these cross-BU synergies, but have reinvigorated the company’s innovation engine by injecting new characters and storylines. Disney’s portfolio is also value-creating, which the capital markets have recognized. In the past five years,²² in fact, its share price has risen more than twice as fast as the S&P 500.²³ Impressively, it has done so in a stable and consistent fashion over that period, demonstrating a great degree of resilience.

“We manage our business as a portfolio and believe we are positioned very well to invest, innovate and balance risk with performance during any economic environment. This balance gives us a competitive advantage especially during times when markets are in transition or seeing slower growth.”²⁰

—John T. Chambers, Chairman and Chief Executive officer, Cisco Systems



Conclusion

An Advantaged Portfolio of businesses—one that is strategically sound, value-generating, and resilient—is at the heart of many successful companies. The nine attributes we discussed illustrate what an Advantaged Portfolio should look like, at least at the most basic level for a typical company. They can serve as a valuable guide for executives in their ongoing work to define the businesses in which they should participate and the ways in which they create value within and across their businesses. Of course, building an “Advantaged” portfolio is not easy. It is not a matter of assessing things on just two or three dimensions. It is not simply a matter of evaluating the strength of individual businesses. Nor is it an arithmetic or algorithmic exercise or a matter of applying a rigid set of criteria to all companies.

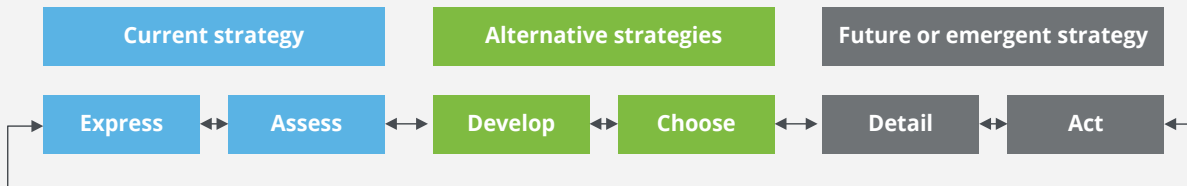
In reality, developing an Advantaged Portfolio is more about creativity and optimization than linear calculation. It involves viewing portfolio options through a wide array of lenses, as well as evaluating both individual and system effects. And it involves using criteria tailored to the company at hand. Most of all, however, designing advantaged portfolios demands hard work: the hard work of wrestling with data, making trade-offs, and making tough choices. In fact, in our view, management should be prepared to hold challenging, data-rich, iterative discussions about what to do (as well as what not to do) when creating an Advantaged Portfolio. Because at the end of the day, good strategy is all about choices. And making the right choices is fundamental to sustaining growth and competitive advantage over the long term.

The Process of Building an Advantaged Portfolio

Thus far we have focused on describing the characteristics of an Advantaged Portfolio to answer the question, what does *it look like once I get there*? The next obvious question, though, is *how do I get there*?

The short answer is that there is a welldefined process for creating an Advantaged Portfolio, and we call it StrategybyDesign™. This portfolio-shaping process encompasses three major stages (see Figure 9): expressing or assessing a company's current portfolio strategy; developing and choosing among alternative portfolio options; and finally, detailing and acting on the future strategy and its associated execution and change management requirements.

Figure 9: The StrategybyDesign™ Process



The key to using this process effectively is to tailor it to the needs of the company at that particular point in time. Some companies need help simply articulating or expressing their portfolio strategy so management can align around it. Others need help assessing whether their current portfolio actually works and will continue to work in the future. Some need help generating options or choosing from among an already-agreed set of options. Others may just need help getting traction on a portfolio strategy they have already agreed to. And still others may need to work through the process from end to end. The best counsel on process is for executives to figure out where the company might be getting stuck across this spectrum of steps, and customize the portfolio-design process accordingly.

End Notes

1. A different way of asking the question is how do we create value at the corporate level, above and beyond that which can be created at the business level? Or more succinctly, what is the value-add of the corporate center?
2. See, for example, A.G. Lafley and Roger Martin, *Playing to Win* (Massachusetts: Harvard Business School Publishing, 2013). This book outlines Monitor Deloitte's approach to strategy definition and expression.
3. Through our experience over three decades with hundreds of multi-business entities globally whether they be public, private, family-controlled or state owned enterprises.
4. For example, one family-controlled company determined that stability of dividend income was a critical goal of the corporate portfolio; for a particular manufacturing company, reducing dependence on a scarce and volatile raw material input was paramount.
5. Bayer AG, "Product areas," <http://www.bayer.com/en/Subgroups.aspx>, accessed February 24, 2015.
6. Seeking Alpha, "Royal Dutch Shell Management Discusses Q3 2010 Results - Earnings Call Transcript," October 28, 2012, <http://seekingalpha.com/article/233476-royal-dutch-shell-management-discusses-q3-2010-results-earnings-call-transcript?all=true&find=%22competitively%2Bpositioned%22>, accessed February 24, 2015.
7. Michael E. Porter, *Competitive Strategy* (New York: The Free Press, 1980).
8. See Anita M. McGahan and Michael E. Porter, "How Much Does Industry Matter, Really?" *Strategic Management Journal*, Volume 18 (Summer Special Issue) 1997; and Gabriel Hawawini, Venkat Subramanian, and Paul Verdin, "Is Performance Driven by Industry- or Firm-Specific Factors? A New Look at the Evidence," *Strategic Management Journal*, Volume 24 (2003).
9. Bansi Nagji and Geoff Tuff, "Managing Your Innovation Portfolio," *Harvard Business Review* (May 2012).
10. Seeking Alpha, "Procter & Gamble's (PG) CEO Alan Lafley Hosts 2014 Analyst Meeting (Transcript)," November 14, 2013. <http://seekingalpha.com/article/2682815-procter-and-gambles-pg-ceo-alan-lafley-hosts-2014-analyst-meeting-transcript?all=true&find=%22innovation%2Bportfolio%22>, accessed February 24, 2015.
11. In a recent survey of activists and corporations, respondents identified ten catalysts of shareholder activism, four of which are linked to portfolio configuration: acquisition announcements, strategic/ operational changes; asset sales, and spin-offs. Schulte Roth & Zabel LLP and Mergermarket, *Shareholder Activism Insight*, 2014.
12. "In Interview, Ghosn Mulls 'Prize' In Possible Alliance With GM," *Wall Street Journal*. July 13, 2006. <http://online.wsj.com/articles/SB115282069310906058>, accessed March 18, 2015.
13. Remember that risk needs to be factored into these cash flows. This is done in two ways: 1) through the use of the weighted average cost of capital (WACC), which reflects the "systematic" or inherent risk of the industries in which a company plays; and 2) through the use of probability-weighted forecasts reflecting the company-specific risks of the future cash flows. Risk also needs to be addressed in a more qualitative fashion, as explained in the section on Resilience.
14. Howell, Robert, "The Two Most-Important Words for a CEO: Intrinsic Value," *The Wall Street Journal*, November 25, 2013. <http://blogs.wsj.com/experts/2013/11/25/the-two-most-important-words-for-a-ceo-intrinsic-value/>, accessed February 24, 2015.
15. Kohl, Geoff, "Brink's to spin-off Brink's Home Security" February 25, 2008. <http://www.securityinfowatch.com/news/10561293/brinks-to-spin-off-brinks-home-security>, accessed February 24, 2015.
16. Seeking Alpha, "Progressive Waste Solutions' CEO Discusses Q1 2014 Results - Earnings Call Transcript," April 25, 2014. <http://seekingalpha.com/article/2166533-progressive-waste-solutions-ceo-discusses-q1-2014-results-earnings-call-transcript?all=true&find=%22best%2Bowner%22>, accessed February 24, 2015.
17. In the context of scenario planning, "the official future" is the macro industry environment and competitive environment that the company's management team believes is the most likely to emerge.
18. Seeking Alpha, "ConocoPhillips' (COP) CEO Ryan Lance on Q4 2014 Results - Earnings Call Transcript," January 29, 2015. <http://seekingalpha.com/article/2865956-conocophillips-cop-ceo-ryan-lance-on-q4-2014-results-earnings-call-transcript?all=true&find=%22resilient%2Bportfolio%22>, accessed February 24, 2015.
19. See, for example, Roger Martin, "Underestimating the Risk of the Status Quo," *Rotman Magazine*, Spring 2007.
20. Seeking Alpha, "Cisco Systems' CEO Discusses F2Q13 Results - Earnings Call Transcript," <http://seekingalpha.com/article/1182051-cisco-systems-ceo-discusses-f2q13-results-earnings-call-transcript?all=true&find=%22balance%2Brisk%22>, accessed February 24, 2015.
21. Walt Disney Company, "Disney to Acquire Lucasfilm LTD," October 30, 2012. <http://thewaltdisneycompany.com/disney-news/press-releases/2012/10/disney-acquire-lucasfilm-ltd>, accessed March 18, 2015.
22. From March 1, 2010 to March 1, 2015.
23. Nasdaq, "Walt Disney Company Historical Stock Prices" <http://www.nasdaq.com/symbol/dis/historical>, accessed March 18, 2015

Winning in M&A

How to become an advantaged acquirer

By Mark Sirower, William Engelbrecht and Steve Joiner

Mergers and acquisitions (M&A) continue to be a favored corporate development tool of executive teams, as evidenced by last year's record-setting level of deal-making. By the end of 2015, companies had spent some \$3.8 trillion on M&A—the highest amount ever—according to data compiled by Bloomberg.¹ And while M&A may not continue at this pace, the trend seems far from abating. Many companies intend to continue combining for numerous strategic reasons, including expanding in existing markets and gaining scale efficiencies, according to a recent Deloitte *CFO Signals*TM survey (see sidebar, “Reasons to deal”).²

2015's M&A volume indicates that we may be in a “merger wave”—concentrations of accelerating M&A activity—possibly the sixth so far in the last century.³ While time will tell if we have crested the wave, this type of heated pace can trigger buyer mistakes, such as deals that don't fit strategically or achieve anticipated benefits. Moreover, premiums that acquirers agree to pay over the target's pre-bid share price tend to escalate as competition intensifies.

Amid such deal exuberance, it may benefit companies to not only become an acquirer, but to become an *advantaged acquirer*. Several factors that have been driving M&A for the last few years—low interest rates, accessible and inexpensive financing, healthy balance sheets, and a U.S. economy that's growing at less than four percent annually—remain intact.⁴ Winning and creating value in this environment may require something more: a set of detailed action steps to help companies proactively identify and transact strategic deals rather than reactively pursue disparate, ad hoc opportunities. This article examines some common buyer mistakes during merger waves and suggests ways that companies

can potentially avoid them by becoming advantaged acquirers.

Merger wave challenges

Merger waves happen when deal volumes increase dramatically, crest, and then fall. The first such period began in the 1920s and ended with the Great Depression. Subsequent waves occurred in the 1960s and in each decade since the 1980s. While the reasons behind these merger waves vary, there are several common mistakes that acquiring companies often make during them.

The first mistake is having an **undefined growth strategy** or one that does not clearly consider the role that M&A will play in that growth—both of which can push companies into being reactive buyers. Some companies unwittingly outsource their growth strategy to investment bankers and, as a result, end up reacting to available deals those intermediaries present instead of proactively identifying viable candidates that support their strategic growth goals. While that deal-making process is fairly common in the general M&A landscape, it tends to be magnified during merger waves, as more inexperienced acquirers enter the arena, making capital investments they weren't making before, and experienced players expand their risk profiles in the search for attractive targets.

Overpaying is another mistake that often happens as deal volume escalates. Academics Peter Clark and Roger Mills argue that there are four distinct phases in merger waves, as reflected in assets' purchase prices.⁵ Bid premiums in phase one have averaged just 10-18 percent during merger waves since 1980; premiums rise to 20-35 percent in phase two, reach beyond 50 percent in phase three, and may surpass

100 percent in phase four. This final phase is where many ill-advised and costly deals are struck—often leaving a legacy of broken promises and lost value.⁶

The third challenge is a **lack of options**. Amid continued market volatility, there is concern that the US economy may not be the driver of corporate growth that many had hoped. In such an environment—and often at the urging of activist shareholders—companies may turn to M&A in an effort to increase shareholder value simply because they believe they have no other choice. Also, because deal-making has become so common in certain industries—consumer products, technology, and health care, to name a few—various stakeholders, including investors and company boards, may favor M&A over organic growth.

The potential benefits of being an advantaged acquirer

- Develop a better pipeline of priority targets as part of the company's M&A strategy.
- Save tremendous resources by not focusing on inappropriate deals.
- Be less driven by someone else's (e.g., competitor) timing and rush to close.
- Understand which auctions are most important and which should be avoided.
- Raise diligence and integration issues before valuation and negotiation begin.
- Use landscape education process to reassess growth pathways and alternative transactions.
- Build credibility with the board and efficiently move targets through the pipeline.

Source: Mark L. Sirower, “Becoming a Prepared Acquirer,” *Corporate Dealmaker*, June, 2006

Characteristics of the advantaged acquirer

A large percentage of M&A transactions do not deliver the value promised at the time of the deal.⁷ Acquiring companies that avoid this fate—particularly during merger waves—tend to have a disciplined process that enables them to identify value-creating targets and avoid the likely underperformers, thereby maintaining a competitive edge and delivering shareholder value. The tenets of this process typically include the following:

- 1. Self-assessment.** A company's executive team members should assess the organization's strengths, weaknesses, and opportunities for growth, both in revenue and value. This may include deciding which customer segments and associated geographies are most attractive to serve and how to do so in ways that competitors cannot easily replicate; and understanding the capabilities and market access required to achieve those goals. Essentially, a company should develop an M&A strategy to complement strengths and backfill weaknesses. A company that hasn't gone through that process will likely trap itself into being a reactive acquirer, working backward from the deal into a strategy.
- 2. Identified priority pathways.** Advantaged acquirers which have conducted a careful assessment know what their M&A priorities are. In other words, they know if M&A is going to comprise 10 percent of their growth, 20 percent, or more. As part of the process, they likely have identified priority pathways at the business-unit (BU) level that address new products or solutions they will bring to market at prices that will add value for customers. Corporate-level growth expectations can be de-averaged to the BU level and used to highlight gaps and prioritize the role of M&A across those units. Without that prioritization, you can likely expect to face a reactive political process—with various business executives championing their favorite deals versus potential deals that are in the best interest of the BU or the company.
- 3. Competitor signaling.** It's important to look at competitors' strategic intent. Much can be learned from examining competitors' M&A deals over the last several years in terms of geographies, capabilities, size, product or service offerings, and targeted customer segments. Call it competitor signaling—past behavior will often foreshadow which acquisition targets may be next on their priority lists. Armed with that information, an advantaged acquirer can often determine if a deal it is considering does or does not make sense, or whether to begin preparing for a battle on a priority deal.
- 4. Strategic screening.** Once they identify the universe of opportunities, advantaged acquirers strategically screen them. While M&A strategy helps to develop prioritized pathways for growth, target screening filters the deal universe in those pathways to generate portfolios of priority candidates. These filters may include everything from size, geography, and customer segments to technology and talent. Management may debate what the strategic priorities are along those pathways; however, the filters are important strategic choices that can help senior executives and the board to understand why a particular priority target was identified in the first place. As one Fortune 100 executive told us, "The more you look, the more you find; the more you look, the more you learn; and the more you look, the more you test your strategies."
- 5. Disciplined execution.** Advantaged acquirers consider integration to be an essential element of target identification and prioritization in the transaction execution process. For example, if the potential for difficult culture issues, such as compensation, autonomy, labor disputes, or distribution gaps exist in a particular deal, acquirers should factor them into the screening process. It can be extremely difficult to analyze synergy potential or conduct a detailed valuation without evaluating such integration risks and determining if the right resources and talent are available to integrate the acquisition effectively.

Reasons to deal: Why will CFOs pursue M&A?

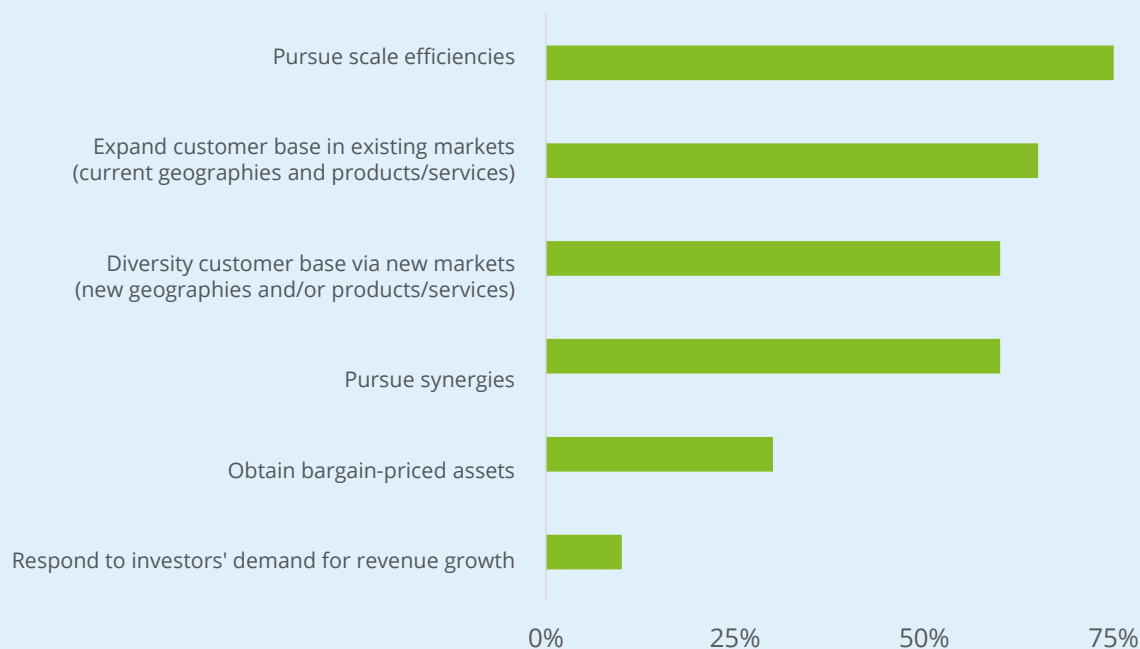
The case for 2016

In Deloitte's Q4 2015 *CFO Signals* report, some 63 percent of CFOs indicated that they expect to pursue M&A deals in 2016. Among them, however, there is considerable diversity of purpose; sometimes reflecting industry differences but often reflecting company-specific factors:

- **M&A deals serve multiple purposes:** CFOs selected an average number of 2.6 purposes for M&A, indicating significant breadth in expected outcomes. Just 17 percent of CFOs selected only one purpose (most often to diversify their customer base or to obtain bargain-priced assets), and 29 percent selected just two purposes (expanding and diversifying their customer base or diversifying their customer base and pursuing scale efficiencies).
- **Heavy growth focus:** About 54 percent of CFOs selected expanding in existing markets, and 51 percent selected diversifying into new markets (27 percent selected both). Overall, 80 percent of respondents selected at least one of these growth purposes. Those who didn't select growth tended to pick a combination of pursuing synergies and scale efficiencies, with a significant number selecting obtaining bargain-priced assets.
- **Heavy scale efficiency focus:** Sixty percent of CFOs selected pursuing scale efficiencies; only one percent solely selected this purpose. Among CFOs not citing scale efficiency, 40 percent chose pursuing synergies, half chose growth in current markets, and 54 percent chose growth in new markets.
- **Vertical integration and consolidation synergies:** About half of CFOs selected pursuing synergies. More than 80 percent of these CFOs also chose a growth purpose, selecting expansion in existing markets (which suggests possible vertical integration strategies) or pursuit of scale efficiencies (which suggests possible consolidation strategies).
- **Bargain-priced assets often an add-on benefit:** Thirty percent of CFOs selected obtaining bargain-priced assets, and almost all of those also chose at least two other purposes—implying bargain-priced assets are often a secondary (or even tertiary) benefit of M&A deals rather than the primary benefit.

What will be the purpose of your M&A deals for 2016?

Percentage of CFOs selecting each purpose (N=70)*



*Results are only for the 63% of CFOs who expect M&A deals in 2016.
Source: *CFO signals*, Q4 2015, January 2016, US CFO Program, Deloitte LLP.

Executive teams bring discipline and patience

To be strategically sound, portfolios In our experience, advantaged acquirers use the above process to develop a watch list of opportunities that they continually refresh. They also tend to close just a small fraction of the potential deals on that list. As long-term successful acquirers, they regularly talk to and negotiate with companies but only pull the trigger on deals that fit their overall strategy at appropriate valuations. In addition, their senior executives typically bring both discipline and patience to the process. Specifically, executive teams act as stewards by determining whether a specific deal fits the company's agreed growth strategy and operating plans. They do so by sticking to their defined rationale and not becoming overly enamored of a particular target so that its acquisition could harm the company. Moreover, executive teams can help bring discipline to the M&A process by assembling the right people in finance and

accounting, technology, operations, strategy, and human resources to make sure that acquired assets are integrated properly. Finally, they can demonstrate patience by having strategic alternatives in case anything goes awry. Along the way, these executive teams are often guided by several common questions:

- Are we looking at the right deals? Being an advantaged acquirer ultimately means knowing the potential targets most important to the company. That involves understanding the universe of opportunities so a company is not in the position where an investment banker or seller proposes a deal the company hasn't already considered.
- Have we measured the transaction's potential impact on ourselves—and our competitors? Acquiring companies should conduct scenario planning to measure how a potential deal could support overall strategy, as well as how it could impede

that strategy if the target was acquired by a competitor. There may be times when it is in a company's best interest for competitors to capture the prize because of the time it will take to integrate the acquisition or the limited value it adds in certain markets.

- Do we have the appropriate integration capabilities? Can we execute this strategy with the resources we have? It's often the financial team's responsibility to not only identify what financial resources should be allocated to the transaction, but also what talent is needed—and the cost of that talent—to integrate the target properly.
- What can we walk away to? A company should always have a best alternative to every deal. As premiums rise, executive teams should be in a position to decide if it is better to buy at 50 times earnings or walk away and do something else with the capital.

Many senior executives complain that they have trouble finding quality assets. One of the other demonstrated benefits of being an advantaged acquirer is that these quality assets typically find the acquirer as it uncovers the universe of opportunities in the market. This holds true for companies of all sizes (see sidebar, “Leveling the playing field”). Once a company has completed its self-assessment, strategy development, target identification and prioritization, the viability of a particular deal should become increasingly clear. And if a deal does not meet agreed-upon parameters, there is often an option to walk away and pursue other high-priority deals on the watch list or to reapply the funds to other segments of the business. After all, advantaged acquirers can afford to be patient—they know what they want.

Leveling the playing field: Tips for mid-sized companies

M&A deals typically fall into the hands of serial acquirers, large companies which have developed this core competency, understand how to strike deals, know how to translate them into shareholder value and, thus, have greater success winning bids. Companies with scale can seemingly afford to take larger risks and pay higher prices. Given this landscape, it can be challenging for mid-size companies to prevail in the M&A auction process, where they often face unique challenges, including: limited M&A experience/skill sets, constrained access to capital, and potential internal resistance from boards unwilling to approve high valuations or take on perceived risk. In short, mid-sized organizations typically appear outgunned—however, they may significantly improve their odds of winning by following the first principle of an advantage acquirer—self-assessment—and doing the following:

- **Prepare to make smarter and bigger bets**—Being crystal clear about which targets are absolute “must-haves” may enable a mid-size buyer to engage in an exclusive deal, avoiding the auction process altogether. If the target does call for an auction, defining the unique value proposition for these assets and the strategic trade-offs may bolster company confidence to pay higher premiums.

- **Build a reputation as an “acquirer of choice”**—Sellers prefer being acquired by companies that will accelerate their value-creation trajectory, a consideration that is often as important as price (especially if the target’s management remains in place or has a continuing financial interest in the company). Building a reputation as an acquirer of choice takes time, but can start with communicating the company’s value proposition, strategic intent, and corporate culture principles.
- **Be a serious and engaged buyer**—Sellers gravitate to buyers that create certainty. Mid-size companies should be prepared to explain a well-designed deal rationale and integration strategy to the target’s management. Buyers should actively participate during due diligence, asking the right questions, and proactively addressing the seller’s integration concerns. Prudent use of experienced external advisors can augment internal M&A capabilities, aid preparation and professionalism, and raise the buyer’s level of credibility and certainty.

While mid-sized companies will often feel like M&A underdogs, they can tip the odds in their favor and, in doing so, be positioned to win a greater share of the acquisitions they pursue.

End Notes

1. "2015 Was Best-Ever Year for M&A; This Year Looks Good Too," Bloomberg, January 6, 2016, <http://www.bloomberg.com/news/articles/2016-01-05/2015-was-best-ever-year-for-m-a-this-year-looks-pretty-good-too>.
2. CFO Signals, Q4 2015; <http://www2.deloitte.com/us/en/pages/finance/articles/cfo-signals-survey-executives-sentiment-betting-america-despite-concerns-2015q4.html>.
3. "Riding the wave," *The Economist*, <http://www.economist.com/news/business/21587207-corporate-dealmakers-should-heed-lessons-past-merger-waves-riding-wave>, October 2013.
4. "National Income and Product Accounts: Gross Domestic Product: Fourth Quarter and Annual 2015 (Second Estimate)," Bureau of Economic Analysis, <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>, February 2016.
5. "Masterminding the deal: Breakthroughs in M&A strategy and analysis," Peter Clark and Roger Mills, Kogan Page, August 2013.
6. Masterminding the deal: Breakthroughs in M&A strategy and analysis, Peter Clark and Roger Mills, Kogan Page, August 2013: (Original source of acquisition purchase premium (APP) percentages, *Beyond the Deal: Optimizing Merger and Acquisition Value*, see pp 20-23, 47-54; Harper Business, 1991.)
7. "Integration report 2015: Putting the pieces together," Deloitte LLP, <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acquisitions/us-ma-integration-report-030415.PDF>

Due diligence for synergy capture

Building deals on bedrock

By Mark Sirower

As corporations and private equity (PE) firms consider mergers and acquisitions that will combine operations, they generally rely on high-level, top-down assumptions to identify cost synergies that are built into valuations. Yet these same organizations are often surprised when assumed post-deal operational improvements aren't as significant as planned or take longer than expected to realize.

Acquirers typically spend three to four weeks on *financial accounting* diligence to normalize EBITDA and *commercial* diligence that tests the real market opportunity and customers' satisfactions and dissatisfactions with the target. Unfortunately, diligence teams often gloss over cost reductions that are perceived as easy to achieve—the “magic 10 percent.” Yet this oversight can have huge ramifications on realized value and management credibility if those synergies do not occur or are delayed. Prospective acquirers may be able to negate this issue by performing *synergy-capture diligence*—a vital piece of operational due diligence that can be done alongside typical financial and commercial diligence.

The story is a familiar one. Post-close, when an acquirer needs to quickly launch critical integration activities around geographic, headcount, and functional alignment, the executive team belatedly realizes that projected cost reductions have not been fully tested and related decisions have not been made. What often happens next? Integration teams are forced to perform diligence that should have taken place

pre-close, and the resulting integration slowdown causes confusion and angst in the workforce. Questions then surface about the credibility of the deal's true value or, even worse, the deal's overall investment thesis.

Synergy-capture diligence, a bottom-up approach that puts management's skin in the game early on, can help identify where specific cost reductions may be achieved. Such diligence can help justify valuations and drive early alignment around the new operating model for the combined businesses.

Pre-close synergy-capture diligence may enable acquirers to avoid predictable problems such as:

- Planning delays, lack of management focus, and unrealistic integration schedules
- Failure to think through costs that will be incurred to achieve each benefit
- Deal team vulnerability to increase the bid price without a credible fact base
- Lack of accountability for specific synergies and no input from management about responsible parties
- Little consideration of scenarios that might help or hinder projected performance improvements, often leading to surprises
- Delayed attention to customers and revenue-generation, opening the door to competitor actions

Synergy-capture diligence by the numbers

Acquirer management teams should consider structuring a bottom-up approach to synergy-capture diligence that tests initial top-down assumptions about synergies and builds a blueprint for accelerating synergy capture during post-merger integration. Based on Deloitte's work with clients in numerous industries, we have identified five steps in the “diligence and plan” process (Figure 1):

Figure 1. The Synergy-Capture Process

		Execute	
Initiate		Diligence and Plan	Launch and monitor synergy achievement
“Top-down” analysis <ul style="list-style-type: none"> • Develop synergy targets based on high-level review of company P&Ls • Validate synergy estimates based on industry deal data or past experience 		“Bottom-up” analysis <ul style="list-style-type: none"> • Create consistent cost and functional baselines • Segment and prioritize synergy opportunities • Quantify specific benefits costs and owner of each opportunity • Develop new financial model • Create synergy—capture blueprint 	<ul style="list-style-type: none"> • Facilitate organizational decisions and develop detailed operating model • Plan synergies customize synergy tracking tools, and develop reporting templates • Implement specific projects and monitor synergy realization • Provide periodic reporting to Acquirer senior management

1. *Create consistent cost and functional baselines.* The acquirer’s management team should begin by gathering profit & loss (P&L) data from recent financial statements for both companies to view the total “pie” and normalize the statements by removing one-time, nonrecurring costs. The team can use this information to create a consistent baseline that maps the cost pools from the combined P&L to specific functional areas such as finance, HR, and marketing.
2. *Segment and prioritize synergy opportunities.* Team members should make initial hypotheses about synergies that can be realized quickly (Phase I)—such as full-time-equivalent (FTE) rationalization, corporate insurance, public company costs and audit fees, and management overhead. Also important are hypotheses about synergies that require additional information (Phase II), such as information technology (IT) and customer relationship management (CRM) consolidation, fleet and vendor rationalization, and corporate facilities and customer service site rationalization.
3. *Quantify specific synergy opportunities and cost-to-achieve by functional area.* Through detailed interviews with executives and functional leaders, the acquiring company should next identify redundancies across all functional support areas for Phase I synergies. This helps to build the new organization from the ground up, identifying responsible parties who are “signing up” for the plan. Other parts of this step are determining the costs to achieve synergies, such as severance pay, lease termination, and other one-time exit costs; and identifying additional overhead cost pools that may have been missed in initial assumptions.
4. *Develop new financial model and explain variances from initial assumptions.* The buyer’s management team can use the bottom-up cost-reduction and cost-to-achieve estimates to develop a new financial model and resulting P&L to present to the company’s board of directors. The model should identify and explain all variances—positive and negative—from the initial top-down analysis.
5. *Create a synergy-capture enterprise blueprint and integration road map.* An enterprise blueprint is a definitive statement of how the new organization should operate to achieve the deal’s intended business results. Developing this blueprint is a critical final step in the “diligence and plan” process because it functions as a road map—with milestones, dependencies, and potential bottlenecks—guiding the organization from overarching deal rationale through post-deal value-capture measures. While the combined organization’s end-state vision likely will evolve as new information is assimilated during the M&A transaction, an enterprise blueprint provides a valuable frame of reference for focusing the entire organization on desired results.

The economics of M&A deals are straightforward: the cost-of-capital clock begins ticking the moment capital is invested. As a result, unexpected and needless delays in realizing synergies can become costly to investors. By following the above steps to pre-deal synergy-capture diligence, acquirers should be able to surpass traditional testing of top-down cost reduction assumptions, whether they are provided by bankers or based on past industry experience. This process also encourages relevant management involvement, input, and personal commitment from the outset. (See: “Practical lessons for working with buyer and target teams.”) It stress-tests the valuation according to size, timing, and investment required to achieve specific cost-reduction targets, and is designed to generate a flexible financial model to accommodate new information as it is revealed.

Because responsible functional parties are identified along with specific synergy initiatives, senior management can focus much earlier on the new end-state operating model, serving customers, and preserving and growing revenue—the life blood of any acquisition.

Synergy-capture diligence in action

The following examples illustrate how Deloitte’s synergy-capture diligence professionals have supported organizations in their efforts to determine realistic synergies, costs to achieve those synergies, early blueprints for end-state operating models, and tactical steps for effective translation of the strategy into execution during the integration process.

Pre-deal synergy assessment: Regional utilities company

Business issue—Assess the client’s synergy estimates for its largest-ever potential acquisition.

Scope and approach

- Deloitte supported the executive team by performing due diligence to validate its synergy estimate and update the company’s final bid.

- The evaluation encompassed G&A and support-function cost elements—for example, operations, finance, marketing, and HR—where a “bottom-up” analysis was conducted.
- We gathered financial data and conducted interviews with senior executives to provide estimates of net efficiency gains focused on: reducing headcount redundancies—for example, two operators serving customers in the same region; consolidating span of control and reducing redundant senior management positions; and identifying new synergy opportunities not previously considered—for example, inclusion of corporate insurance and audit fees.

Value achieved

- Our client identified 50 percent more incremental synergies than its previous top-down synergy estimates indicated would be possible.

Pre-deal synergy validation: Life sciences tools company

Business issue—Validate and refine the client’s synergy opportunities by cost pool and function for its acquisition of a target twice its size in terms of revenue.

Scope and approach

- Deloitte supported the executive team’s pursuit of a life-event transaction for the acquirer by conducting pre-deal synergy identification to inform the deal valuation.
- We engaged both acquirer’s and target’s functional leaders in validating and quantifying synergies across COGS, R&D, sales and marketing, and G&A with timing and cost-to-achieve considerations, thereby facilitating leaders’ buy-in on synergy targets.
- In complete confidentiality, Deloitte provided pre-deal support to both acquirer and target from pre-signature—45 days prior—through announcement date.

Value achieved

- Our client identified approximately \$150 million more in incremental synergies than initial estimates, and also front-loaded synergy capture to 50 percent in the first year.
- We helped the client determine a purchase price that was accretive for investors, and our work helped boost management’s confidence and clarity regarding objectives for jump-starting the synergy-capture process.

Practical lessons for working with buyer and target teams

Potential implications for the buyer

- *Assembling the right team:* Numerous target company functional areas may offer post-deal synergy opportunities. It is critical, therefore, that buyer team members who are conducting the pre-deal synergy assessment be knowledgeable about those functions.
- *Gaining rapid access to internal data:* A buyer may miscalculate the time required to gain access to their internal data, which may slow analyses that require financial information from both target and buyer. Product purchase and selling prices, detailed functional cost breakdowns, and other internal data are typically required to build functional baselines and assess potential synergies.
- *Appreciating synergy-realization challenges:* A buyer’s M&A team may underestimate the time and costs required to achieve anticipated synergies as well as overestimate run rate benefits. A senior executive should play the “pressure-testing” role across each function before synergy assumptions are built into valuation models.
- *Safeguarding deal confidentiality:* One of the common challenges of performing bottom-up synergy diligence is maintaining deal confidentiality. Because this is essential, the buyer’s diligence team should be as small as possible. Where it is not possible to have representatives from each function, external advisors can help fill any gaps.

- *Building a flexible synergy model:* The synergy team should build a flexible financial model that accommodates multiple scenarios (e.g., initial estimates, worst case and best case). As management uncovers new information throughout the diligence process, having a flexible model can help the team quickly adjust the high and low ranges by function and facilitate discussions about which cases are most realistic for each function.

Potential implications for the target

- *Requesting and prioritizing data:* Because rapid access to target data is critical during a pre-deal synergy assessment, establishing a quick, simple, and trackable data request process will help the buyer team avoid delays and missed data as it becomes available. Prioritizing requested data enables the target's management to focus on and invest time in providing the most important data first.
- *Coordinating with the entire diligence team:* Buyers only get so many opportunities to interact with target management, so it is important that the synergy, accounting, commercial, and operational due diligence teams are coordinated. That enables the buyer to leverage data already captured from the target.
- *Asking questions that yield unbiased answers:* Cost synergies can be a sensitive subject, so questions should be phrased to elicit unbiased responses from the target's executives. For example, rather than asking about poor performers, questions could focus on current employee evaluation policies and recent results.
- *Assisting the target with data preparation:* Tactfully communicating the buyer's knowledge about the target company's information technology (IT) systems and data sources, such as enterprise resource planning (ERP) systems and data warehouses, may help to expedite the data-gathering process with the target's employees.
- *Assessing confidential and sensitive data:* Bottom-up analyses of cost and revenue synergies often involve accessing sensitive target company information. This may include employee salaries, hire dates, and termination policies for possible headcount reductions; or pricing information for potential cross-selling initiatives. Management teams can use external advisors to help manage confidentiality concerns related to this information and help avoid potential antitrust issues.

Deal-making in downturns

The “big, black cloud of slowdown” has a silver lining

By Bruce Brown, Raghav Ranjan, Will Engelbrecht and Tanay Shah

Market downturns can deliver disguised M&A opportunities that create value and drive long-term growth

Words like “downturn,” “recession,” and “slowdown” may send a cold chill down the spines of most company executives – and rightly so, since they are widely associated with periods of stunted growth and poor performance, and may lead to pay cuts, layoffs, and cost-reductions. However, within the big black cloud of an economic slowdown there is a silver lining; an opportunity that many organizations fail to acknowledge, let alone seize. During market downturns, strategically focused companies can challenge the status quo and disrupt stagnant thinking by using mergers and acquisitions (M&A) to create new avenues for significant growth, shareholder value, and competitive advantage.

Common wisdom holds that acquisitions should be pursued when the economy is strong and companies are flush with cash, a strategy termed “buy rich.” However, by solely following this path, companies may

miss downturn-driven opportunities to “buy for value” at lower market premiums and better interest rates, which could position them for long-term revenue growth and cost synergies.

While select corporate “strategic shoppers” understand that market downturns¹ present an opportunity to acquire companies that are heavily leveraged or poorly managed, more often, Private Equity (PE) players take advantage of this approach. In fact, in the early 2000s, PE groups increased their M&A activity during the economic slowdown, in contrast to corporate M&A activity (Figure 1). During the financial crisis of 2007-2009, PE firms initially slowed their M&A activity, only to crank it up again as they recognized the value presented by lower valuations. This is because a slowdown in economic activity may present a much more significant challenge for smaller or underperforming companies versus their larger and better-capitalized competitors, resulting in opportunities for consolidation, distressed sales, and buyouts.

Why do savvy shoppers wait for clearance sales before making large purchases?

Why do bargain hunters line up outside the electronics store the night before Black Friday?

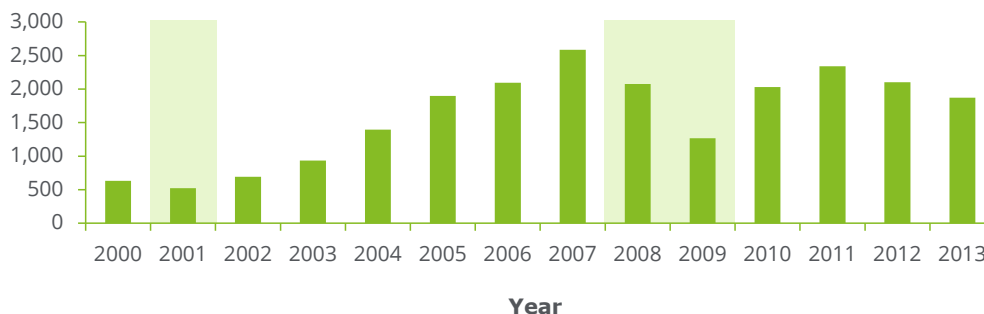
Why does a league-leading baseball player wait for a curve ball before swinging for the fences?

Why does stock price increase when the buyer's acquisition bid is perceived to create value?

.....They are all making
EFFECTIVE USE OF TIMING

Figure 1: M&A Activity among Private Equity groups

Number of Deals



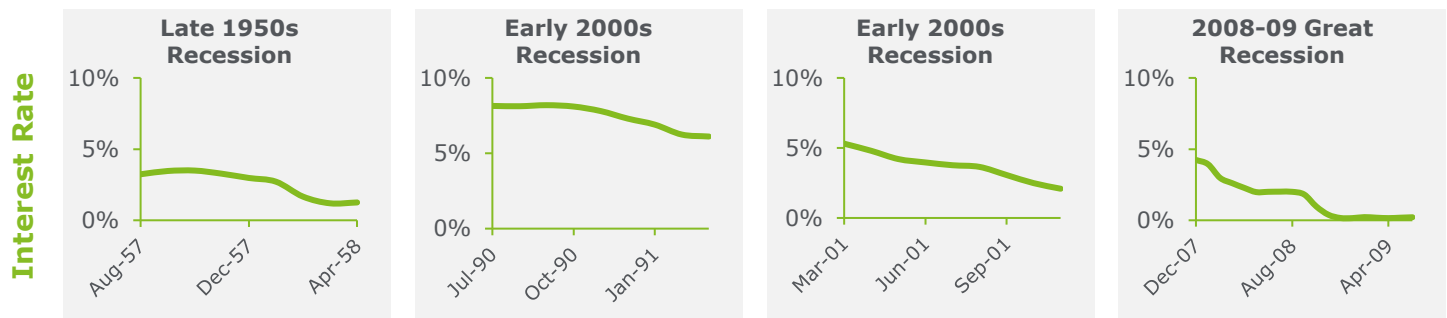
Source: Deloitte Internal Analysis 2016

Economic slowdowns also may be an opportune time for larger and well-capitalized manufacturers to go shopping, as they can acquire smaller players at a reduced market premium and recoup a significant return on investment (ROI) from their M&A plays. Furthermore, companies can raise capital to fund M&A transactions by shedding underperforming assets or taking advantage of cheaper debt financing

due to decreased interest rates. Figure 2's charts show that interest rates can drop significantly during periods of downturn. Deloitte analysis shows that over the past nine recessions, the Effective Fed Funds rate has dropped by 390 basis points, on average (Figure 2). Lower interest rates reduce the cost of debt and make downturns an opportune time to increase M&A activity.



Figure 2: Interest rates during downturns



Source: Deloitte Internal Analysis 2016
 Note: Recession is defined based on the National Bureau of Economic Research

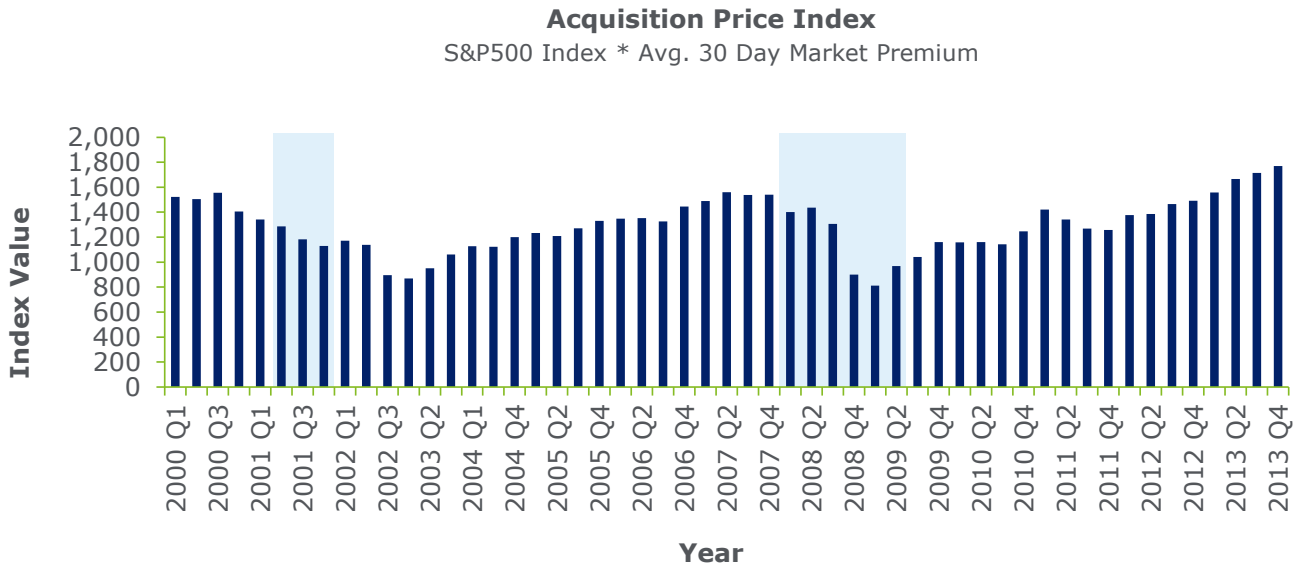
Whether companies overpay or underpay for an acquisition is typically measured by the 30-day Average Market Premium. During the onset of an economic downturn, the premium typically dips, indicating lower valuations. During the downturns starting in 2001 and 2007, the premium dropped significantly from the previous year and well below the long-term average of 27 percent. However, market premiums are factored on an asset's market value, which itself often drops drastically during a downturn. This means that the same business that previously was valued much higher by capital markets may be perceived as less valuable in the downturn, rewarding investors who bring a long-

term and strategic perspective. Hence, a "cleaner" premium or discount for a deal is better understood by measuring the market premium within the context of market valuations. The Acquisition Price Index, defined as the product of the 30-day Average Market Premium and S&P 500 index, represents the normalized acquisition premium paid for a deal, factoring in both the lower asset value and the lower premium produced by slower expected growth and greater uncertainty.

Upon examining market premiums in conjunction with the broader market's underlying value, represented by the Acquisition Price Index, it is apparent

that overall valuations are lower during downturns (Figure 3). This is because asset values are depressed and premiums may also be reduced as a reflection of risk and uncertainty. In the 2001 recession, the Acquisition Price Index (Figure 3) dropped more than 10 percent. This discount was even more apparent during the Great Depression of the 1930s, when the Index dropped more than 30 percent below its peak, only to rise by more than 70 percent four years later. The deflated Acquisition Price Index/reduced premium on transactions makes downturns an opportune time to shop for deals.

Figure 3: Acquisition Price Index during downturns



Source: Deloitte Internal Analysis 2016

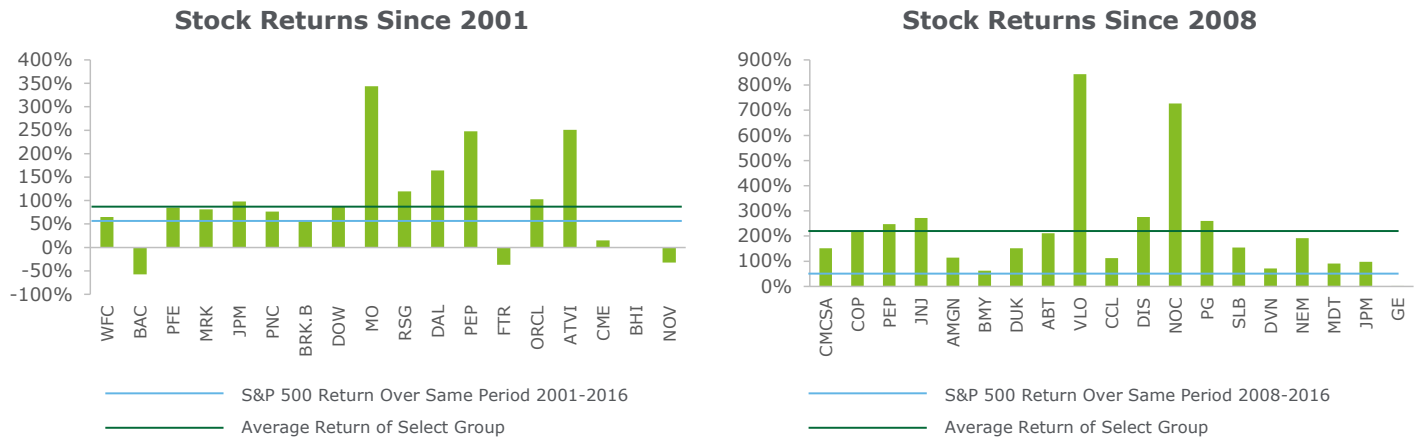
Note: Timeframe of 2000-13 was selected for this analysis to assess M&A activity and market trends in the period leading to economic recessions, and until the effects of slowdown were fully observed or neutralized

Making acquisitions by leveraging low interest rates and lower valuations during a downturn has the potential to generate significant shareholder value by enabling companies to compete more effectively in the broader market.

Looking at the 20 largest acquisitions that took place during the 2001 and 2008-09 recessions, acquirers subsequently have exhibited substantial upticks in their stock price (Figure 4). Across industries, many large players who made acquisitions in

recessions have outperformed the S&P 500 index over the period. In other words, the stock markets also reward those companies that demonstrate the courage to make buyouts during a recession.

Figure 4: Market returns for largest public acquirers during 2001 and 2008-09 recessions



Source: Deloitte Internal Analysis 2016

Undoubtedly, downturns create heightened uncertainty, which can ultimately impact valuations and potentially challenge the rationale for a buyout. The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a widely used measure of market risk that is often referred to as the “investor fear gauge.” It is a forward-looking expectation of 30-day volatility, constructed from the implied volatilities of a wide range of S&P 500 index options (both calls and puts). Some key insights can be gleaned by evaluating the average CBOE VIX during downturns.

There is a significant uptick in volatility during downturns, as illustrated by the surging VIX index of 2001-2002 and 2008-2009 in Figure 5. Furthermore, there is an inverse correlation between the CBOE VIX and the S&P 500 indices. A higher CBOE VIX index and a lower S&P 500 index would imply lower valuations during times of increased uncertainty. This begs the question of whether companies can take advantage of this increased volatility during downturns to acquire at reduced valuations. An interesting pattern that emerges is that eroding market value (indicated by a

downturn in the S&P 500 index) offsets the heightened risk (indicated by an upswing in VIX index). For example, the VIX volatility index rose from 23 in 2000 to 27 in 2002 while the S&P 500 index dropped from nearly 1500 to 800. In other words, increased volatility during downturns allows for a shift in bargaining power, better enabling acquirers to negotiate favorable terms and valuations. It’s only natural to fear downturns, but organizations that overcame that fear and engaged in M&A were rewarded with returns that outweighed the risk.

Figure 5: Comparison of Avg. CBOE Volatility Index vs. S&P 500 Index



Source: Deloitte Internal Analysis 2016

The following perspectives on the Mining, Automotive, and Industrial Products industries illustrate how companies have capitalized on downturns to drive significant strategic value.

What's happening across industries?

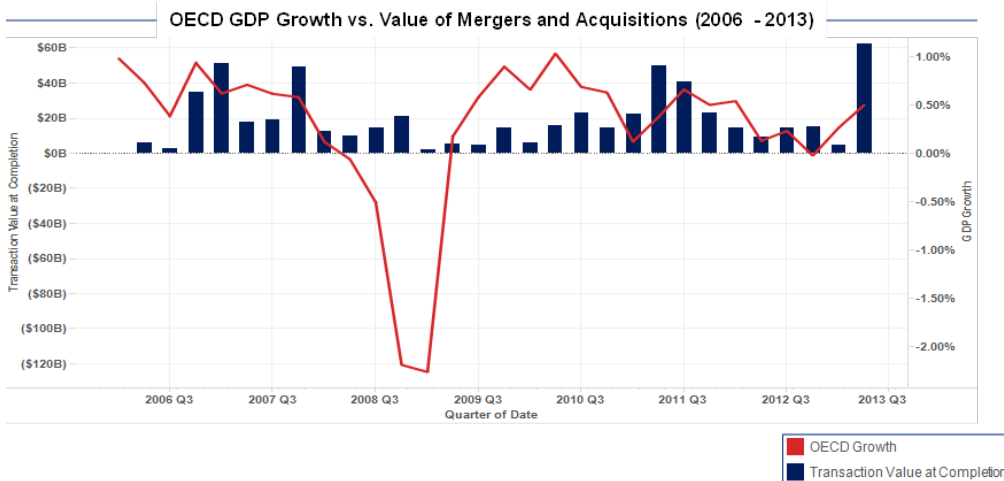
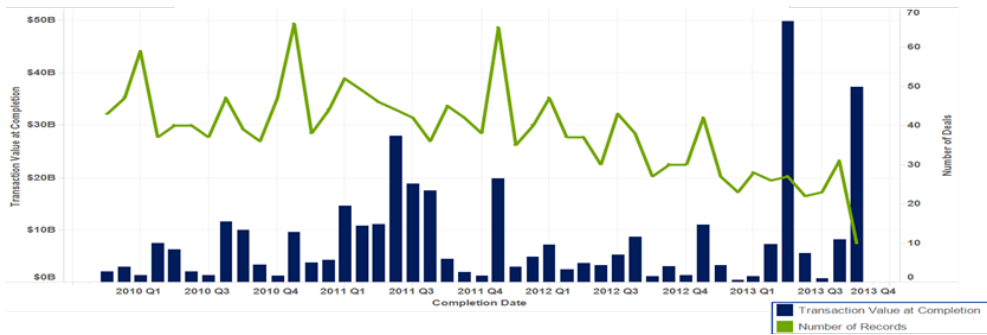
Spotlight: Mining

- Weaker global demand since 2014, especially in China, has led to a decline in commodity prices and mine closures throughout the world, including South America, Southeast Asia, and Australia. Environmental regulations have also driven the closure of coal mines in the US and Europe, as developed countries shift to cleaner energy sources

- Larger mining companies are selectively acquiring smaller ones that are struggling to stay profitable as commodity prices fall

During 2013-2015, the mining industry was still responding to slower GDP growth in late 2012. Recent M&A activity suggests that companies may be purchasing targets when earnings expectations are higher, which may result in overpaying or eventual write-downs. Therefore, if miners focused on M&A activity in the midst of downturns rather than, say, six months after conditions are improving, they could achieve higher returns on their acquisitions.

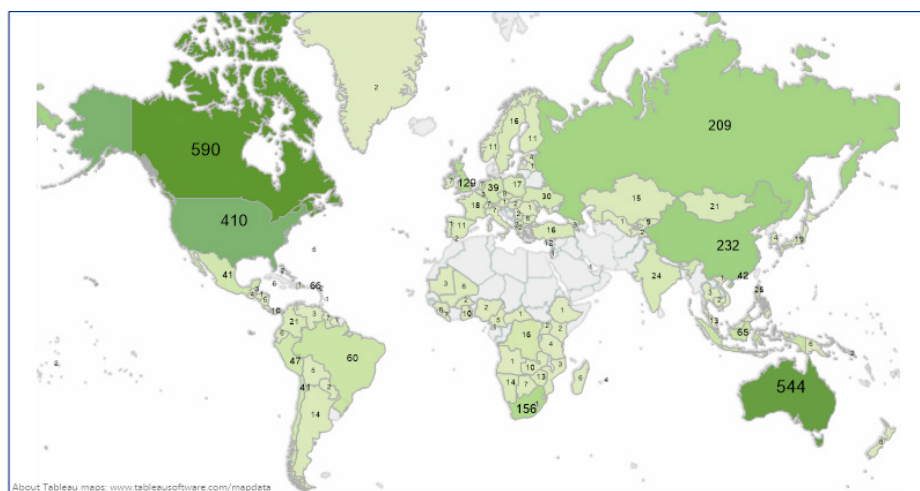
Figure 6: Value & Count of Mergers & Acquisitions in Mining against OECD growth (2010-13)



Source: Deloitte Internal Analysis 2016

- Most Mining industry M&A deals since 2006 have involved companies based in Canada, Australia, the US, and China (Figure 7).

Figure 7: M&A Deals in Mining by geography



Depth of green color and size of text increase with the number of M&A deals since 2006

Source: Deloitte Internal Analysis 2016

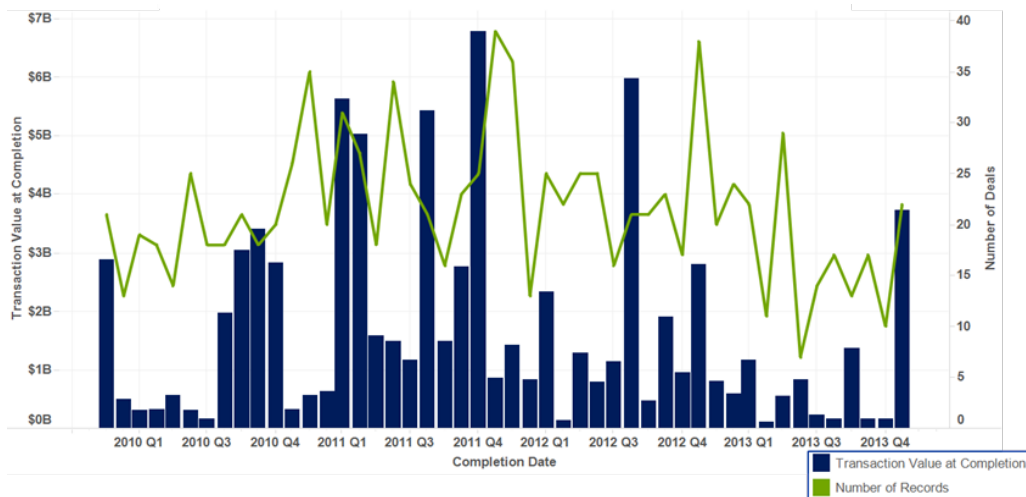
- Deloitte analysis shows that many mining equipment manufacturers are forming alliances with suppliers to offer a full portfolio of parts and services to their customers globally. For example, one of the largest mining equipment manufacturers has more than 40 alliance partners that provide mines with products ranging from lubricants to safety technologies.

Situation	How to derive value?
<p>Mining companies and contractors, particularly smaller players, are undergoing significant financial and operating stress.</p>	<ul style="list-style-type: none"> • Larger, cash-rich companies could use the downturn as an opportunity to buy struggling players in anticipation of the mining industry reviving in 2017-18. • Such acquisitions could be funded by trimming underperforming mining assets or using leveraged financing that takes advantage of lower interest rates. • Mining equipment OEMs can dip further into their alliance programs and offer a host of equipment and services to large miners looking to consolidate vendors.

Spotlight: Automotive

- Deloitte analysis shows that some/ many/ most automotive suppliers and original equipment manufacturers (OEMs) that aggressively cut costs during the 2008-2009 economic downturn are consolidating to bolster competitive advantages and better leverage global platforms.
- Economies of scale and global leadership are key drivers of merger and divestiture activity among auto suppliers.
- Transaction value has fluctuated over the past four years while deal volume has remained relatively constant (Figure 8).

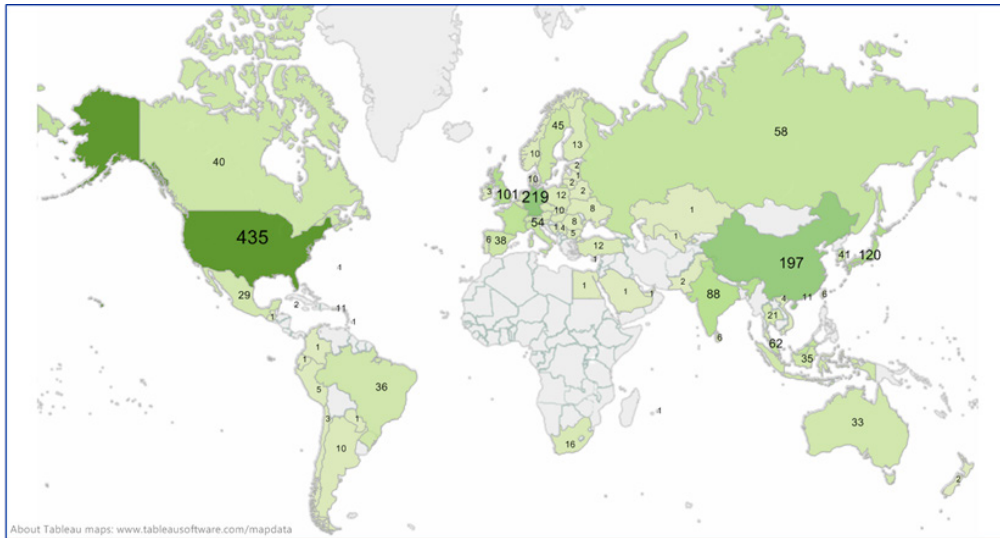
Figure 8: Value and Count of Mergers and Acquisitions in Automotive (2010-13)



A. Most Automotive industry M&A transactions since 2006 have involved companies based in the US, followed by Germany and China.

Source: Deloitte Internal Analysis 2016

Figure 9: M&A Deals in Automotive by geography



Depth of green color and size of text increase with the number of M&A deals since 2006

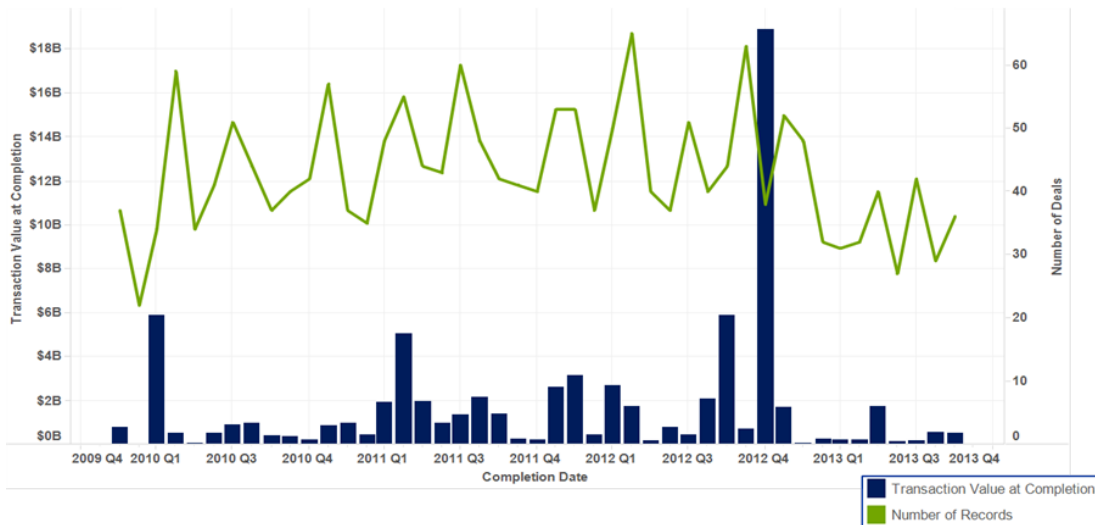
Source: Deloitte Internal Analysis 2016

Situation	How to derive value?
<p>The global Automotive industry, particularly in the US, is growing tremendously and posting significant profits since it was paralyzed in the most recent downturn</p>	<ul style="list-style-type: none"> • While market premiums are high, automotive players may consider divesting underperforming or non-core businesses where they don't expect much growth. • They could then focus on strategic initiatives to expand market share and grow their customer base. • Further, they may make investments to gain competitive advantage in their core businesses, either organically or through acquisitions.

Spotlight: Industrial Products

- Cost-cutting measures and slow global growth have driven Industrial Products companies to pursue deals in high-growth sectors, such as alternative energy.
- Similar to the Automotive and Mining industries, some Industrial Products companies are consolidating to take advantage of economies of scale and reduce costs.
- Notable heavy equipment manufacturers have been pursuing innovations such as next-generation Underground Mining Equipment through joint ventures and alliances. Such moves are occurring as the Mining industry is at an all-time low, which illustrates the resolve and strategic thinking of OEMs to invest in core high-growth areas during a downturn in anticipation of long-term returns when the market recovers.

Figure 10: Value and Count of Mergers & Acquisitions in Industrial Products (2010-13)

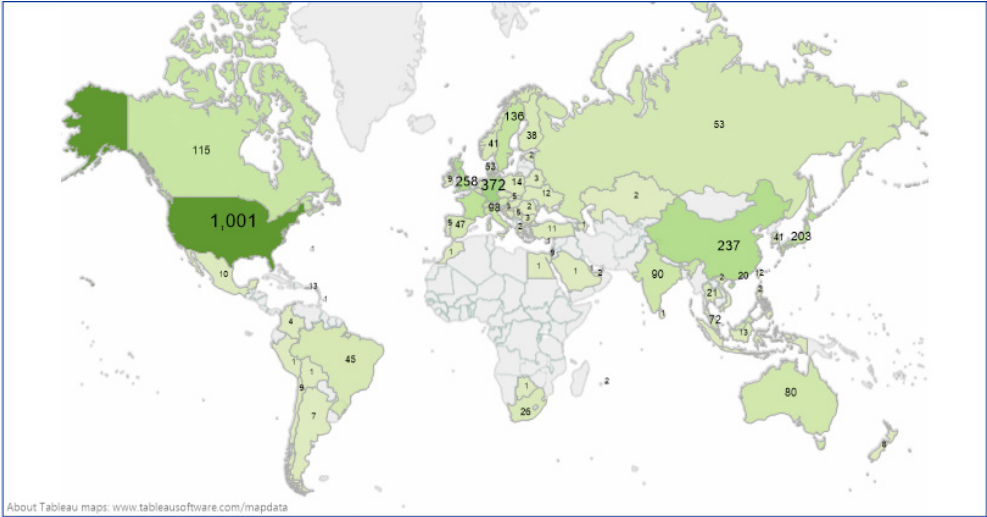


- The majority of Industrial Machinery M&A deals since 2006 have occurred in the US, Germany, and Britain (Figure 12).

Source: Deloitte Internal Analysis 2016

Note: Timeframe of 2010-13 was selected for this analysis to assess M&A activity and market trends in the period leading to economic recessions, and until the effects of slowdown were fully observed or neutralized

Figure 11: M&A Deals in Industrial Products by geography



Depth of green color and size of text increase with the number of M&A deals since 2006

Source: Deloitte Internal Analysis 2016

Situation	How to derive value?
<p>Industrial Products manufacturers are under tremendous pressure to manage costs effectively while serving rising global demand</p>	<ul style="list-style-type: none"> • Companies could consider this a potential restructuring opportunity to gain operational efficiencies or economies of scale among their related businesses. • Further, consolidation of their businesses could position them as “one-stop-shop” preferred vendors to better serve OEMs that are looking to streamline suppliers. • Industrial Products manufacturers that are not as diversified could grow their portfolio by acquiring businesses that deliver economies of scale.

Source: Deloitte Mergers and Acquisitions Communications Playbook

How does a company capture value in downturns?

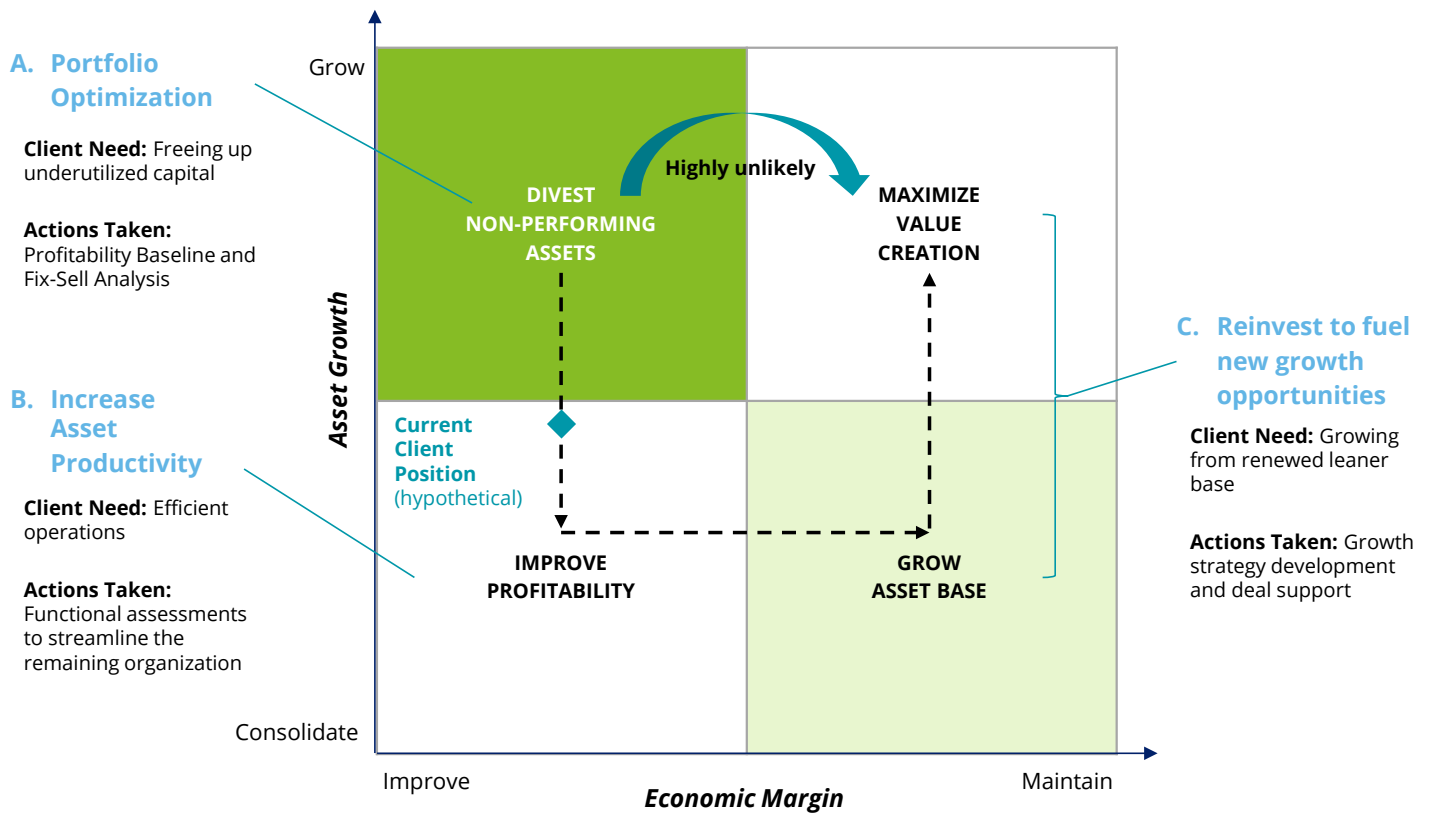
PE firms and corporate leaders that regularly employ the following two approaches should be well-positioned to leverage organizational performance during a downturn and capitalize on the ensuing economic recovery.

- A. Optimize portfolio & free up capital by divesting non-performing assets
- B. Discipline spending and costs of remaining portfolio to increase asset productivity
- C. Reinvest capital in new growth targets leveraging lower prices during the slowdown

1. Target inorganic growth

Companies that use the three-step framework depicted in Figure 12 that focuses on inorganic growth can evolve their business models as needed to pursue acquisitions in high-growth areas. Steps include:

Figure 12: Deloitte’s Fuel for Growth Framework



2. Target organic growth

Taking advantage of organic growth opportunities can increase sales and build upon a company's current strengths, helping to put it in a better position if and when executives begin to evaluate the potential for future acquisitions.

For example, Manufacturing OEMs and suppliers could take advantage of recent market consolidation to offer existing customers a global, one-stop-shop value proposition that contrasts with smaller players that have limited offerings and a regional geographic presence. They could also attract existing and new customers with alliance programs that offer global supplier contracts and benefits. Additionally, market downturns may push downstream companies to the wall, forcing them to trim their supplier base. This could give larger, well-managed companies an advantage compared to smaller players, due to their global presence, focused relationships, and alliance programs. Engaging in these and other organic growth strategies may help companies bolster their market capitalization and balance sheet strength, and provide a favorable jumping-off point for executing a stock purchase or cash buyout when the timing is right.

How can Deloitte help?

- Deloitte has knowledge, tools and resources to assist organizations looking to make strategic acquisitions to create new or expanded portfolios; or to divest non-core or non-performing businesses.
- Deloitte's capabilities span the M&A transaction lifecycle, from advisory and execution planning to implementation and integration. Services includes Target Identification, Diligence (Commercial/ Operational/ Finance/ Tax/ IT), M&A or Divestiture/Spinoff Day-1 Planning, Deal Execution, and Post Day-1 Integration.
- Deloitte's Pricing practice can help in structuring discounted pricing levels and frameworks for global customers.
- Deloitte's Sourcing practice can assist in developing sourcing and logistics strategies for OEMs to serve global customers.
- Deloitte's Supply Chain practice can help streamline the acquired entities' supply chain costs and operations to derive economies of scale and scope.
- Deloitte can perform benchmarking and diagnostics of operations such as production, manufacturing efficiency, order to delivery, time to customer, and stock availability.
- Deloitte can provide integration planning and assist in execution to realize cost savings attributed to process synergies, organizational design, and system consolidation.

End Notes

1. Note: Timeframe of 2000-13 was selected for this analysis to assess M&A activity and market trends in the period leading to economic recessions, and until the effects of slowdown were fully observed or neutralized
2. Note: Timeframe of 2010-13 was selected for this analysis to assess M&A activity and market trends in the period leading to economic recessions, and until the effects of slowdown were fully observed or neutralized

M&A-driven sales & marketing

Know where to play and how to win

By **Iain Bamford, Brett Beckett, Nik Chickermame and Steve Maddox**

Introduction

A company pursuing an M&A transaction often has a strong growth rationale for the deal. In theory, M&A provides many opportunities for growth – expanded market presence, larger customer base, and broader product/service portfolio, among others. In reality, only 27 percent of acquisitions are able to help a company grow faster than its historical rate or keep pace with its peers.¹

In most cases, achieving M&A-related growth becomes a question of focus, capability, and executional readiness. However, in their haste to integrate operations and reap “tangible” cost synergies, companies often miss opportunities to become more customer-centric, achieve quick-win revenue synergies, and build a long-term growth platform. Many factors can divert an organization’s focus from achieving growth goals including different management visions, disparate operating models built on legacy systems and processes, outdated customer experiences that don’t leverage digital or other technologies, and culturally diverse workforces.

A company’s Sales & Marketing organization can play an essential role in helping to capitalize on growth opportunities across the pre-deal and post-deal phases of an M&A transaction. This is particularly true when company executives are aligned to and guided by a Sales & Marketing growth framework (Figure 1) – that aids decision-making around “where to play” and “how to win.” This framework should help executives identify and validate growth opportunities; tie these to the newly combined company’s go-to-market strategy to strengthen customer-related functions; and facilitate functional readiness across the enterprise.

Figure 1. Growth in M&A framework

What are our goals and aspirations?	Where will we play?	How will we win?	How to configure?	What management processes and systems?
<ul style="list-style-type: none"> • Confirm growth targets—growth expectations and revenue synergy goals • Develop revenue baseline for the combined entity 	<ul style="list-style-type: none"> • Validate existing growth opportunities across markets and customer segments • Develop new growth opportunities by sizing and prioritizing combined baseline 	<ul style="list-style-type: none"> • Define combined value proposition and messaging to drive a unified go-to-market strategy • Enhance customers experience to increase purchase decision 	<ul style="list-style-type: none"> • Drive integrated product portfolio • Enhance pricing and profitability • Align marketing and digital strategy • Optimize sales and channels mix and access 	<ul style="list-style-type: none"> • Drive process and system readiness to execute the plan • Enable customer and field readiness to ensure that they are ready to conduct business with NewCo

Pre-close planning and preparation

Analyzing growth goals and opportunities, defining a go-to-market (GTM) strategy, and developing a customer experience strategy are critical elements of M&A pre-close planning and preparation. A cohesive sales and marketing vision that is backed by robust data and analytics can support functional integration, leverage operational synergies, and increase deal value.

Analyzing growth opportunities

The first step in determining where and how to grow is to baseline existing capabilities and identify and prioritize growth opportunities. While the overall deal model serves as a directional goalpost around baseline growth targets, it typically provides floor, not ceiling-level, objectives. A separate but aligned growth framework identifies a structured and logical approach to analyze and quantify growth and the time-phasing required, based on prioritizing an opportunity's size and ease of execution (Figure 2). Typically, the analysis occurs in a “clean room” environment pre-deal close, given the confidential nature of the information that cannot be shared during this phase in the M&A lifecycle.

A growth analysis examines the total addressable market for the combined product and solution portfolio, the strength

of the target's competition, and how well the combined company can penetrate markets going forward. By interviewing select management and customers, acquirers can identify and prioritize potential opportunities by product, customer segment, market size, or region. This disciplined approach keeps planning efforts focused on the highest-value opportunities. Effective growth analyses align stakeholders – including sales and business leaders – who, ultimately, will be accountable for and impacted by sales results.



Case study: A global technology hardware company was aiming to become the leader in enterprise asset management by acquiring an enterprise solutions business. To achieve desired synergies, the combined company needed to align its sales, marketing, and channel capabilities. After identifying growth opportunities across combined capabilities, developing growth roadmaps and a future-state vision for business functions and systems, the combined company ultimately achieved its desired revenue synergies and revenue growth. It will have about 20,000 channel partners in more than 100 countries, and will hold a robust portfolio of intellectual property (IP), with approximately 4,500 US and international patents issued and pending.

Figure 2. “Where to play” framework



Defining go-to-market strategy

Once the deal team has identified specific market opportunities, the next step is to define a unified go-to-market strategy (Figure 3) to achieve growth objectives, maintain business continuity, and efficiently and effectively deploy both companies' talent and resources.

Adding the target company's offerings to the acquirer's product and service mix can shift the GTM approach in dramatic ways. The new strategy should translate data inputs into an actionable, growth-focused structure that is defined by segment, market, product, channel, and sales. It can be challenging to identify and prioritize the most critical strategic inputs, but doing so will determine the effectiveness of the deal vision, structure, and subsequent decision-making when executing the strategy post-close.

One critical process is to develop job-based customer segments that reflect what the new company's target customers want to accomplish, rather than how they accomplish the goal. The segmentation model should cascade into a targeted GTM plan that encompasses:

- Overall resource allocation

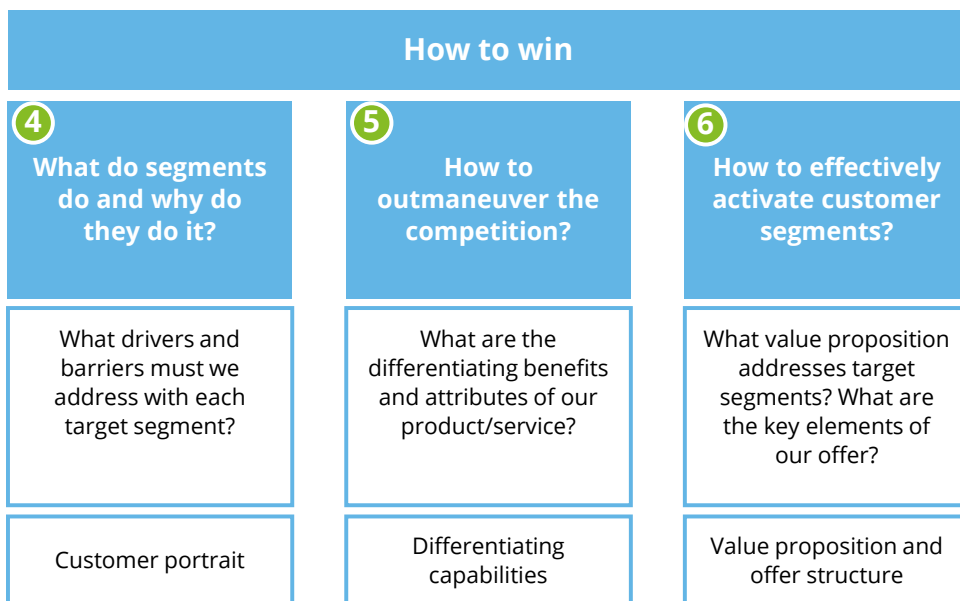
- Sales and service delivery: Sales targets, sales coverage, channel mix
- Marketing: Customer messaging, branding, targeting, new value proposition
- Research and development (R&D): Portfolio rationalization, roadmap planning, product innovation efforts

A thorough understanding of new customer segments and a clear GTM strategy should enable better alignment of the post-merger sales channels with the post-merger product portfolio.

Case study: A software company that primarily operated with an indirect sales model (selling via channel partners) was considering the acquisition of a software-as-a-service (SaaS) company with a direct sales model and its own sales force. To achieve growth objectives, the acquiring company focused resources upfront to determine the right mix of direct versus indirect sales based on the market strategy it established, as well as whether it needed to build additional capabilities. Based on this assessment, the company was able to plan necessary adjustments to its sales channels after deal close, accelerating the time to results.



Figure 3. "How to win" framework



Developing a customer experience strategy

Delivering a consistent brand promise and experience across all customer touchpoints enables a company to gain more value from its customer relationships. In the context of M&A integration planning, companies should develop and implement a customer experience (CE) strategy framework (Figure 4) that is designed to maintain business operations and allow both companies to unlock value for customers and shareholders. An effective CE strategy can increase customer retention, spur higher and more frequent spend per customer, and lessen price sensitivity. The CE strategy and framework should focus on:

1. Evaluating the current customer experience and assessing the voice of the customer;
2. Developing customer experience “personas” to build a customer-centric organization;
3. Identifying and prioritizing CE improvement opportunities; and
4. Executing and measuring the results of the CE improvements.

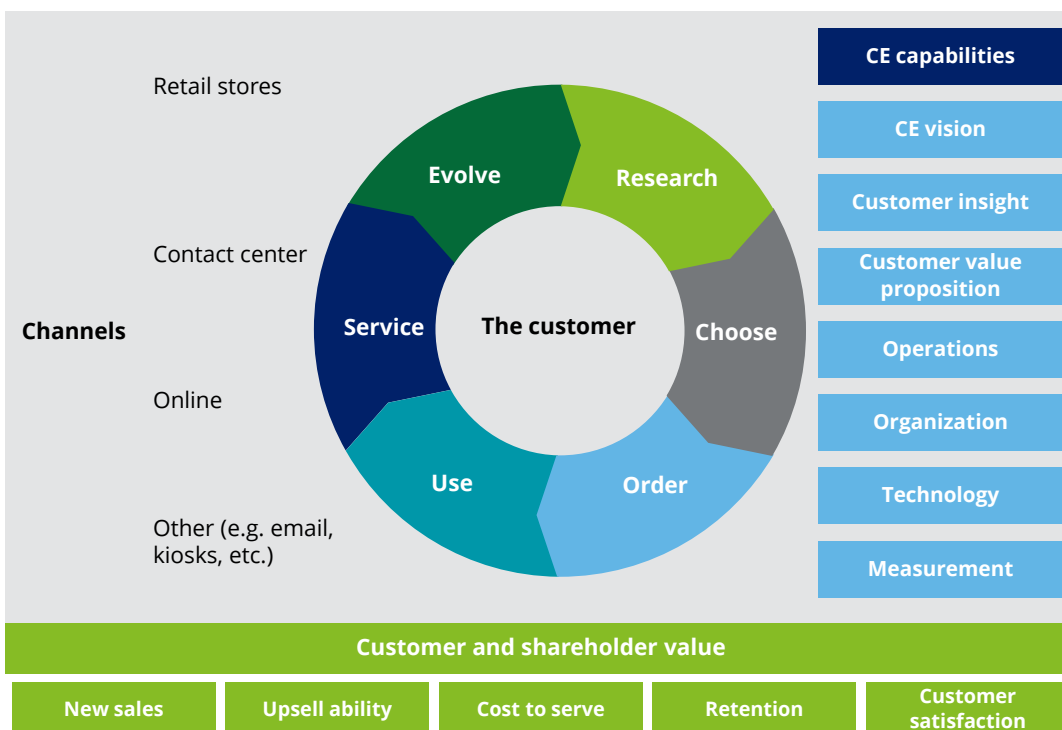
An effective and profitable customer experience strategy is predicated on delivering the right messages and services through the right channels. Common wisdom holds that it is easier and less expensive to retain a customer than to acquire a new one – within the context of a merger, a breakdown in customer experience can amplify customer retention issues.

In addition to strengthening customer retention, an effective customer experience strategy can be a major source of differentiation in highly competitive industries such as consumer products, technology, and life sciences.

Case study: A major telecom provider was merging with another telecom provider with a large prepaid customer base. The acquirer wanted to create a seamless and integrated customer experience for these diverse customer bases across target and acquirer channels, while carefully managing customer disruptions as it integrated the companies.

The project team defined the target and acquirer’s current customer experiences, including key channels, interactions, and pain points in the customer lifecycle – from learning about a product and buying it to obtaining customer care and upgrading to additional services. The team built customer journey maps for both acquirer and target customers to show how the experience would change during the integration. The acquirer then migrated the target’s customers onto its network and billing platform while enhancing the target’s customer experience within its online and physical sales channels. Ultimately, this enabled the acquirer to achieve its cost synergy targets and increase customer retention.

Figure 4. Customer experience strategy framework



First 100 days sprint

Enabling customer and partner readiness, using cross-selling strategies to generate quick wins, and building the new company's brand are important sales and marketing focus areas when integrating two companies during the first 100 days sprint.

Enabling customer and partner readiness

A lengthy or complex M&A transaction can often trigger feelings of uncertainty and unease among the participating companies' customers and partners. Even long-term relationships may be negatively impacted by the slightest changes in the combined company's products, sales model, or services strategy (Figure 5).

To strengthen retention, protect revenues, and drive growth, the new company should proactively manage its legacy customer and partner relationships. Five tactics can help customers and partners prepare for the transition:

1. Talk to customers early and often, even if not all the answers are available;
2. Determine the combined customer base's needs and proactively address them;
3. Create playbooks to prepare customer-facing employees to conduct consistent but differentiated customer interactions;
4. Establish a customer "war room" as the central point for issue resolution; and
5. Prepare and support customers and partners for changes on their end (ordering, payments, etc.).

All partners need to understand their role in the combined company so that they can support operational changes and help execute the new GTM strategy. Frequent and clear communication is critical to mitigate attrition and create a foundation for long-term growth.

Case study: During the merger of two B2B technology manufacturing companies, the planning team developed communications, training materials, and enablement activities for the sales team and channel partners to address key account management and operational changes around quoting, ordering, and invoicing. A Day 1 sales playbook (Figure 5) was created to help them focus on short-term cross-selling opportunities, to consistently communicate deal value drivers to customers, and to identify potential customer risks. Specific rules of engagement were defined to govern areas of potential customer and sales team confusion (for example, accounts with overlapping sales teams positioning for similar products). These measures minimized customer confusion and attrition, which enabled the sales teams to quickly transition their focus to cross-selling and additional growth opportunities.

Figure 5. Customer experience implications for readiness

Customer experience implications		
	Customer	Company
Deal announced ↓	Concerns on continued delivery of services	Focused on retention and maintaining areas of strength
Day one ↓	Sensitive to service disruptions	Focused on maintaining delivery of core services during Day one cut over
Post-Day one	Simple, integrated experience	Planning for, and building, a compelling, seamless, and integrated CX future state

Using cross-sell strategies to generate quick wins

Cross-selling and up-selling both the acquiring company's and target company's products and services can help quickly capture post-close revenue synergies. To enable the combined sales staff to promptly act on potential opportunities, company executives will need to clearly define what to sell, to whom, and how to reach them: Will all products be sold to all accounts? What products will be best-suited for cross-selling by each of the sales representatives? Will the existing reps be allowed to sell the acquired products?

Company executives should develop key account strategies to allocate cross-selling responsibilities in specific customer segments and mitigate the risk of reverse leverage from key customers. Furthermore, sales compensation plans (incentives, spiffs, bonuses) for cross-selling and up-selling should be announced and implemented quickly after close. Promoting simplicity and transparency can help improve process efficiency and reduce legal and finance risk.

Case study: A global biotech reagents provider acquired a major biotech instruments provider, with extensive projected growth synergies for the new entity within three years through cross-selling.

Pre-Day 1, the company developed a combined list of customer accounts and distributors, reprioritized customer segments by profit pools, redeployed the combined sales force by priority segment, analyzed products from both companies and sales bags to maximize the potential for cross-sells, and developed revenue synergy estimates for cross-selling, pricing capture, and channel upsells globally.

Post-Day 1, the company reduced uncertainty in the sales force ranks by establishing a clear account management structure focused on priority segments; presenting a single face to the customer by integrating order channels and the quote-to-cash process; launching a sales and marketing handbook at a joint sales summit to drive a uniform customer experience; and defining an approach to track revenue synergy by initiative. Through these efforts, the company exceeded cross-sell sales expectations and saw greater collaboration among the combined sales forces at key accounts.



Managing pricing

Pricing management is an important sales and marketing function that executives frequently overlook during integration planning. This can be a costly oversight, as pricing projects are usually quite effective in terms of time to realization and impact. Most pricing benefits are realized within the first 12 months, which is within the critical time period during which analysts expect to see deal results. Further, a pricing project’s return on investment (ROI) typically exceeds 300 percent, and most pricing projects improve gross margins by 10 percent or more—²too much potential value to ignore.

To effectively build pricing improvements into an integration plan, management should evaluate which initiatives should be completed pre- versus post-close, and how pricing strategies should be managed on Day 1. The effective use of “clean teams” in the pre-close phase can accelerate pricing integration while enabling the combined company to comply with antitrust requirements. Clean teams, composed of joint staff from the acquirer, and/or target (and, sometimes, external consultants) can

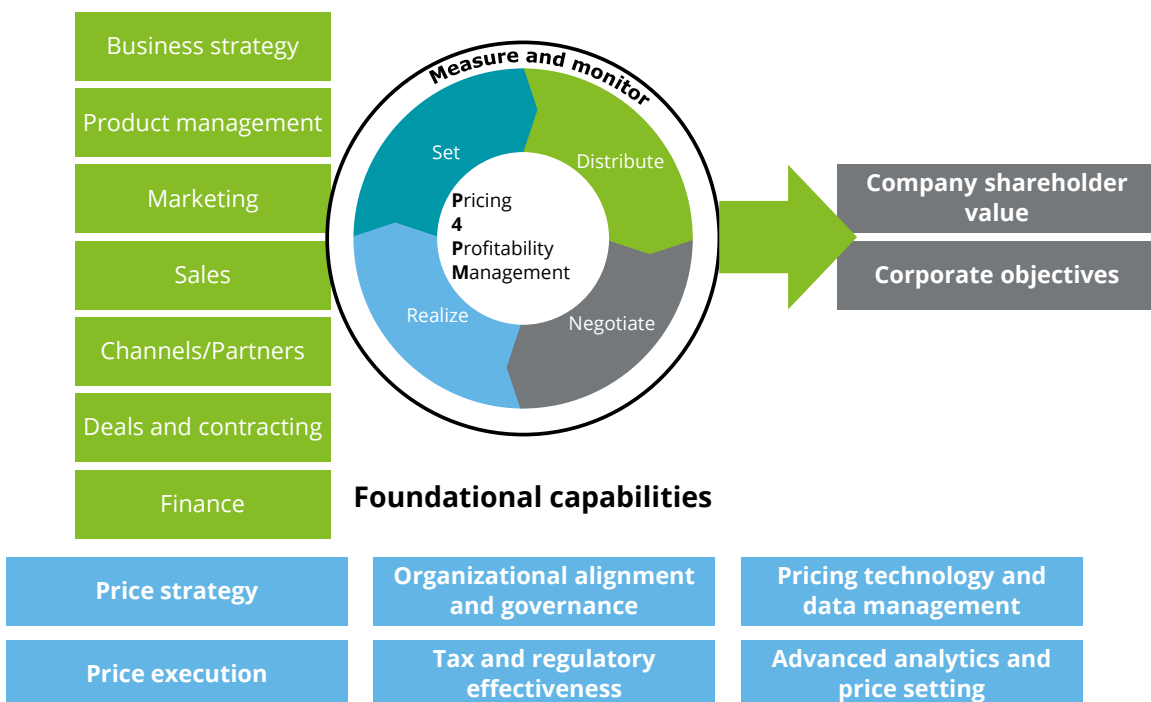
receive and analyze sensitive data from both companies while remaining isolated from other integration efforts until the deal closes. Typically, companies treat pricing as their most sensitive competitive information and choose to address new pricing strategies only after the deal is complete. This can mean a delay of six months to a year or longer before taking action—leaving months of revenue and margin improvement on the table and opening the door for competitors.

A useful framework for analyzing and determining pricing changes is to consider the degree of market overlap and value gain for customers (Figure 6). Time can be spent in the pre-close phase analyzing data and doing high-level planning. Policy changes that may affect pricing improvements should be implemented in the post-close phase. Other post-close initiatives may include changing discounting and promotions policies to reduce inconsistencies across the two firms, and eliminating unprofitable or low-value transactions by adjusting the price of selected SKUs. Again, the key is to quickly leverage the pre-close analysis results.

Pricing improvement efforts should be driven by the sales and marketing functions, but they also require strong support from finance, IT, and operations. A dedicated integration pricing team should, therefore, be viewed as a cross-functional “SWAT” team with representatives from each function. It also should have a clear charter from the Integration Management Office and be empowered by all functions to drive implementation of its recommendations.

Case study: A major financial services company challenged with integrating a newly acquired division chose to focus on centralizing the pricing function to drive revenue generation. As a result, the new integrated business unit generated both a significant average price increase and a sales volume increase, achieving the desired impact to their bottom line.

Figure 6. Pricing for profitability framework



Building the new company's brand and digital presence

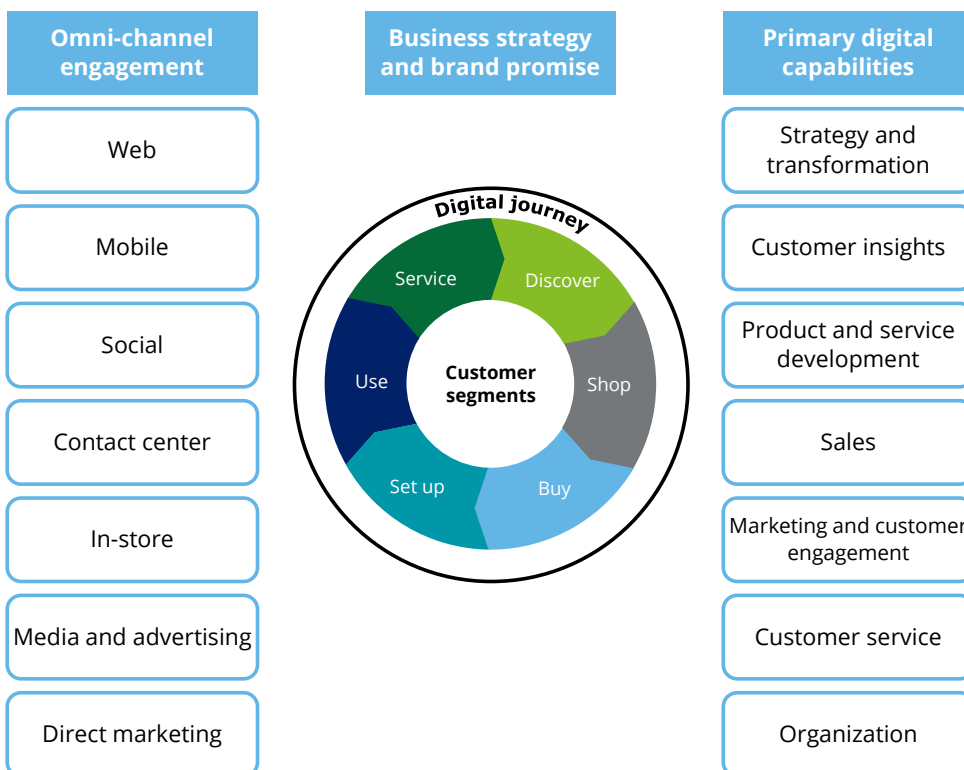
A merger or acquisition often surfaces difficult questions about the value of one brand relative to another, as well as the business areas impacted by a rebranding effort. Branding is one of the first visible indicators of a combined company's direction and, thus, should be addressed at the corporate, product, and service levels. Despite its importance, brand decisions are often rushed or based on political and emotional factors. A poorly planned and/or executed rebranding campaign can result in a "Frankenstein" brand that dilutes the power of the legacy brands; an overly long branding process can result in missed sales and marketing opportunities. Acquirers need to determine which brand is more valuable to convey to customers, employees, stakeholders, investors, and regulators. Even if one brand is centuries old and inspires confidence at home, it may be a blank slate in a new market or product category.

Websites, mobile applications, and social media channels are digital representations of each company's brand and should be carefully managed alongside other branding changes. A digital roadmap (Figure 7) should define all changes across all online channels to confirm a seamless customer experience and ongoing engagement. For Day 1, marketing executives should update landing pages and site linkages, refine their advertising targeting strategy, and adjust the online execution of new brand campaigns. Following deal close, they should communicate any impending changes to their digital assets to customers and partners to support a smooth transition to new sites and online services.

Case study: When two technology conglomerates – providers of hardware, technology and cloud solutions – merged they needed to develop an end-state system of tools to support the joint organization's marketing strategy. To identify the right tools the planning team first created a master inventory of tools across both companies and a filtration system to identify which tools were within the marketing function's scope. The team then interviewed a number of tool and capability owners across both organizations, which helped to identify and prioritize decision-making criteria to enable the marketing strategy.

Team members from both organizations held joint working sessions to align on the selected tools, identify common tools for contract consolidation and synergies, and set broad assessment processes to aid future decision-making to achieve the end state.

Figure 7. Digital roadmap



Post-Day 1 environment

Sales and marketing’s role in generating M&A deal value typically kicks into high gear in the post-Day 1 operating environment. Important contributions include planning and executing a product/service roadmap, transforming the combined companies’ sales force, managing product/service pricing, and capturing long-term revenue synergies.

Planning and executing a product and service roadmap

Composition of the new product and service portfolio that the combined company will take to market typically is driven by the market opportunity validation conducted at the deal’s outset. In the short term, sales and marketing leaders may take steps to quickly create new product bundles or solutions and identify product improvements brought in by the acquired business (Figure 8).

Making longer-term product decisions is inherently more difficult due to the potential influence of customer preferences and technical or operational complexity. However, it is important to put a stake in the ground early to better integrate products and improve R&D collaboration

Four tactics can help guide product roadmap decisions and manage customer expectations during an M&A transition:

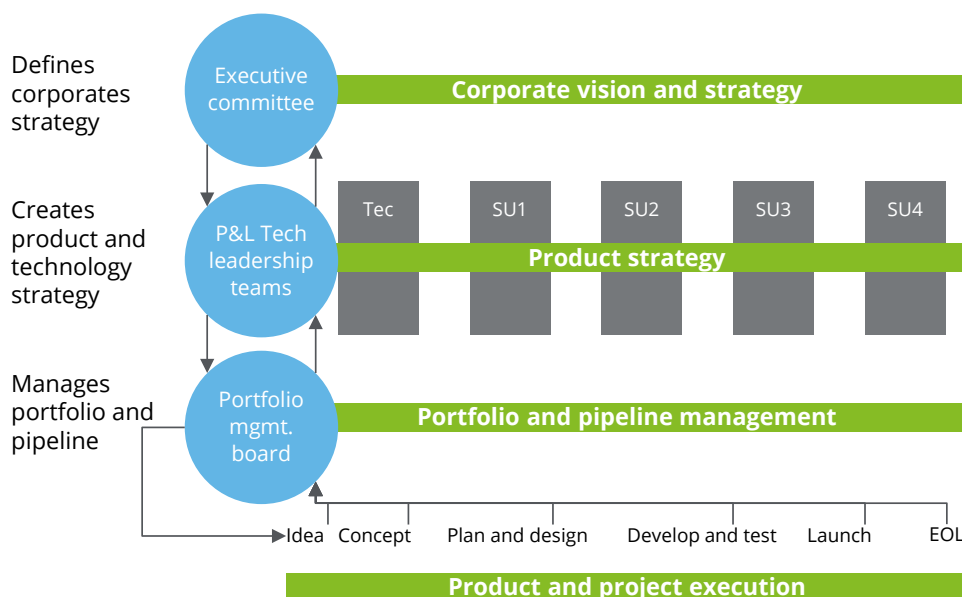
1. Eliminate product overlap based on customer and market requirements;
2. Look to non-customers as well as current customers to build a longer-term roadmap of market-sustaining and -creating products;
3. Conduct go-to-market (sales, marketing and product) summits to educate teams on competitively sensitive information (previously not shared or assessed via a clean room) and to align leaders around a go-forward vision; and
4. Announce product roadmaps as early as legally possible.

Sales and marketing departments should convey messages about the new company’s growth story quickly to reassure customers and other stakeholders. A high-level product roadmap provides a starting point but it needs to include a services component. The acquirer should define a unified and consistent strategy regarding services positioning and decide how the combined services will be described, packaged, and sold.

Inevitably, some existing products and services may need to be retired or divested. In such cases, delivering the news early and in a constructive way to both customers and sales personnel will reduce confusion and anxiety, and begin the conversation about migrating to other solutions.

Case study: A global medical device company acquired a competitor with an overlapping product portfolio. As part of the post-deal integration, the company needed to align and optimize the two product portfolios. The integration team identified product rationalization opportunities and built a resulting set of analyses into a product optimization business case. The team also developed a detailed roadmap to realize savings by executing quick-win deletion and optimization opportunities. As a result, the team identified significant margin improvement and cost savings opportunities

Figure 8. Product portfolio management decision-making bodies



Transforming the sales force

Integrating sales forces and developing a sales transformation framework (Figure 9) are significant post-Day 1 processes for virtually every M&A transaction. Effective integration should minimize disruption to sales teams and accounts, and accelerate revenue growth; in contrast, poor execution may adversely impact customer satisfaction, retention, and revenue synergies.

Integration should begin by identifying the drivers behind customers' purchase behaviors and developing a flexible channel strategy. Customers may seek arbitrage opportunities and behave in unexpected ways – understanding the customer is essential to unlocking the combined company's competitive differentiators.

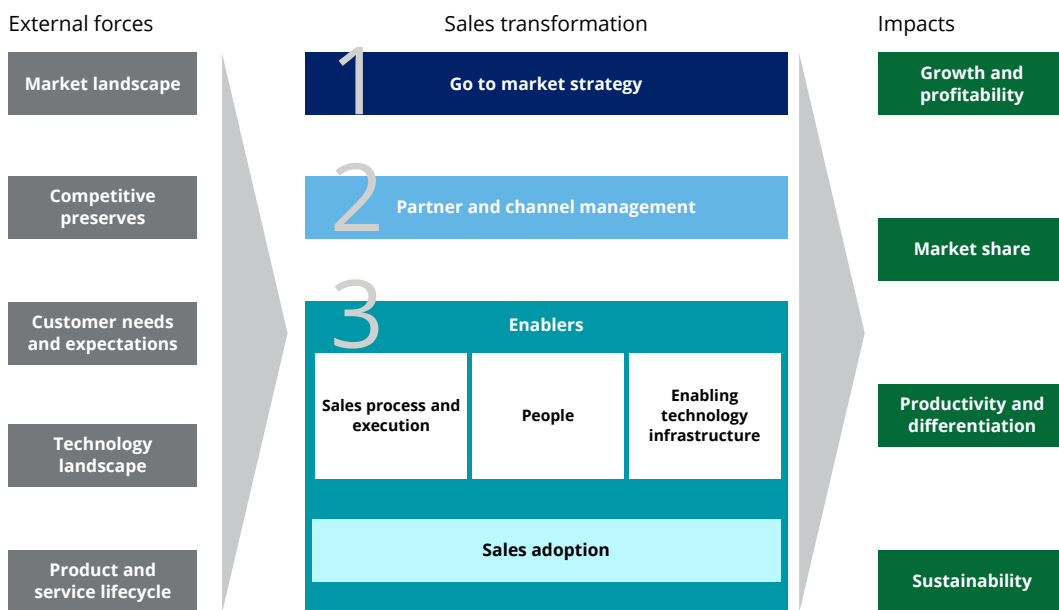
The next attention area is the sales channel, which should be viewed as a strategic partnership. A symbiotic relationship with partners is important so that both parties mutually benefit. Agreement terms should be based on profitability analyses and the importance each channel plays in the overall sales pipeline.

Developing a robust infrastructure to support the new sales team is another critical element. Sales processes, enabling technologies, and tools need to be harmonized and support the overarching channel strategy. Communication between executive leadership and customer-facing sales and marketing teams needs to be tight to enable seamless delivery of the expanded product and service suite on Day 1 and beyond.

Case study: A major biotech company acquired a bioinstrumentation firm with goals of expanding its market presence, capturing revenue synergies, protecting revenue, and minimizing churn. The acquisition doubled the organization's size and targeted hundreds of millions of synergies across geographies and business units. The major challenge was choosing a GTM strategy for the legacy companies' distinct brands and disparate, regional sales processes and channels.

The project team evaluated multiple options across customer segments and developed an optimized sales operating model that established governance and cross-functional strategy and planning mechanisms. The team also developed rules of engagement, including defining quota/compensation plans for the sales force; revised the order-to-cash process to support a dual-brand strategy; and facilitated global sales manager readiness. As a result, the new company had a successful Day 2 dual-brand launch and exceeded revenue targets.

Figure 9. Sales transformation framework



Capturing long-term revenue synergies

M&A transactions should be based on a clear understanding of desired short- and long-term revenue synergies. Cost reductions typically are a factor, but they should not be confused with synergies—which are motivated by a vision of how the combined company will be able to increase revenue and market share at a faster clip than either company could do on its own.

Many companies tend to track M&A-driven cost savings more closely than revenue improvements, simply because these savings produce a shorter-term impact and are specific and measurable. In many cases, revenue and margin goals for the new business are adjusted and there is no separate tracking of post-deal synergies – company leaders may know they are obtaining some growth but may be unaware of what is left on the table or whether the business unit is executing against the strategy that led to the acquisition.

A good approach involves setting accountability and measurement criteria to make certain that the company is focused on capturing long-term revenue synergies.

Closing

An M&A transaction can be a huge catalyst for revenue and market growth; however, success is never guaranteed. Growth-oriented M&A may require taking a disciplined approach to sales and marketing based on a real understanding of the drivers of short- and long-term value – where to play and how to win. By addressing the priorities outlined in this article, both early in the deal process and throughout post-deal integration, companies can emerge as high performers and capture long-term revenue synergies.

According to Deloitte's 2015 Integration Survey, 10 percent of executives reported that they did not know if their synergy targets were achieved. Successful acquirers create effective measurement criteria as part of their post-merger plans. These metrics make it easier to track results and keep companies focused and accountable over the long term.

Case study: A major chemical company wanted to capture revenue synergies and analyze sales and marketing functions to identify cost-saving synergies across its priority markets. The project team conducted a baseline review of the current state, competitive set, market, and customer segments. The team identified synergy drivers and derived potential synergy values to help prioritize the relevant integration activities. It also identified Brazil as the key market and uncovered sizable complementary product opportunities across its portfolio. Subsequently, the company was able to unlock previously unidentified synergies and improve its profitability with minimal disruption to its customer base.



End Notes

1. "Growth through M&A: Promise and Reality"; Deloitte Review; <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Mergers-and-Acquisitions/gx-ma-growth-promise-and-reality-021915.pdf>
2. Deloitte Consulting analysis based on Fortune magazine's Fortune 500 list (April 18, 2005); Deloitte Consulting experience tracking merger synergies; and AMR Research, The Customer Management Applications Report, 2004-2009, August, 2005.

Supply chain's role in M&A

Achieving value creation through supply chain

By Kurt Schmid, Nate Windom, Joel Schlachtenhaufen, Steve Mangal, Srinu Bangalore and Chris Gilbert

A merger or acquisition (M&A) transaction presents both opportunities and challenges for supply chain executives who are tasked with integrating the best of both legacy organizations while keeping business running on all cylinders. M&A can generate sustainable – and potentially, game-changing – cost and operational synergies, but executives need to navigate inherent post-close complexities to fully deliver those synergies and achieve anticipated deal value. Now, more than ever, supply chain executives are under pressure to:

1. Identify, capture, and deliver deal-related synergies;
2. Invest in operations to support end-state business growth objectives;
3. Integrate legacy supply chains with minimal impacts to customers, partners, and employees; and
4. Make critical decisions quickly to keep pace with transaction deadlines.

While supply chain synergy targets vary by industry, Deloitte experience shows that the supply chain typically is responsible for half of announced deal synergies (Figure 1).

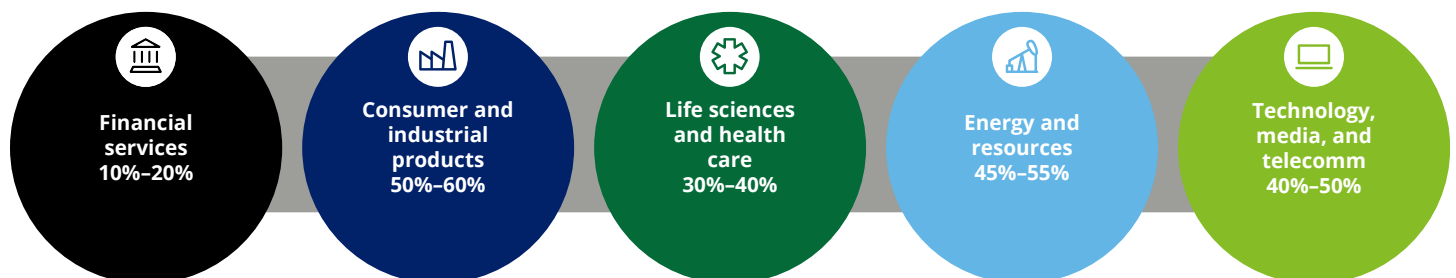
Supply chain executives can play a pivotal role in delivering synergies that can help achieve deal objectives. To meet synergy goals, executives should proactively identify potential supply chain sources of value during a transaction's due diligence and pre-close phases, and take early advantage of Clean Rooms and external advisors to support the launch of synergy projects immediately following Day 1. Despite the high stakes, an M&A transaction provides executives with a powerful platform to transform two disparate supply chains into an integrated operation that can create a competitive advantage in the marketplace.

During the M&A process, supply chain leaders will need to address a number of important issues, among them:

- Redefining the supply chain operating model and organizational structure;
- Leveraging the combined talent, technology, and leading practices of each supply chain;
- Standardizing processes, systems, policies, and performance metrics; and
- Making investments to build and scale the supply chain to support the expanded business.

Executives should expect that their focus and priorities will shift as they progress through three phases of the M&A lifecycle: pre-close planning, the first 100 days sprint, and post-deal transformation and growth.

Figure 1. Supply chain synergies as percent of overall deal synergies, by industry



Source: Deloitte Consulting Global Benchmark Center

Pre-close planning

An important first step in the pre-close planning process is to establish a strong governance structure and dedicated supply chain integration team to set Day 1 priorities and lead decision-making. Including representatives from the core supply chain functions and each of the geographies is critical to planning a successful Day 1 launch and designing an end-state organization to support the newly-merged entity. Other pre-close planning priorities include retaining talent and “tribal knowledge,” and managing integration risks to enable post-Day-1 business continuity. Many companies going through a merger face uncertainties and cultural tensions, but well-structured, “two in a box” joint planning teams can help smooth the transition. Coordinating with other functional integration teams to resolve interdependency issues should help enable efficient Day 1 execution.

As part of their Day 1 preparations, supply chain leadership will need to address several strategic questions:

1. Day 1 readiness planning

- What is our supply chain integration strategy? What are our guiding principles?
- What are the supply chain ‘must do’s’ to support a seamless Day 1 transition?
- What activities require coordination with functions such as R&D, Commercial, Finance, IT, HR, and Legal?

2. Synergy opportunity Identification

- What are the major sources of value across the supply chain?
- What are the quick wins to accelerate value capture?
- What are the resources, costs, and timing to achieve supply chain synergies?

3. Risk mitigation and change management

- How do we coordinate and communicate changes with customers and strategic suppliers?
- What is our approach to retain top talent and operational tribal knowledge?

Getting Day 1 planning right requires a disciplined approach and clear guiding principles to direct the supply chain integration team; keep the organization focused on Day 1; identify bottom-up synergies and other sources of value; and manage potential risks associated with customers, partners, and employees. Establishing a Clean Room to jump-start synergy planning allows the team to develop quick-win opportunities and mobilize execution immediately following the close of the transaction. Figure 2 depicts examples of supply chain sources of synergy value.

The pre-close planning phase’s primary outputs are a detailed supply chain Day 1 checklist, an integration and synergy plan, and a project roadmap. These are critical deliverables required for Day 1 success; they also identify and prioritize projects, timing, and resources to support the first 100 days sprint.

Case study

Situation:

As part of a \$10 billion merger, a global industrial manufacturing company required assistance with Day 1 integration planning across business functions including Supply & Operations from pre-close through Day 1000.

- Client leadership had limited experience in planning and executing a global acquisition.
- Supply chain synergy targets comprised the major portion of synergies to support the deal economics.
- The target company was in aggressive cost-reduction mode and provided limited resources for the integration.

Approach & impact:

- The company used external Clean Teams to conduct synergy analyses to identify +\$90 million in synergies (150 percent of target).
- The planning team coordinated 70+ global supply chain resources across business functions to prepare and execute for Day 1.
- The team developed negotiation strategies for overlapping suppliers and conducted rapid renegotiations to deliver 30 percent of synergies in the first 30-60 days.

Figure 2. Supply chain sources of value

Material & operations cost synergies

- Rapid supplier contract renegotiations
- Strategic sourcing
- Carrier consolidation
- Design for cost & manufacturability
- SKU rationalization



Productivity & asset optimization

- Demand & supply planning
- Inventory & working capital
- Distribution network optimization
- Manufacturing network optimization
- Plant & warehouse productivity



Source: Deloitte Consulting LLP

First 100 days sprint

During the first 100 days after deal close, supply chain executives' focus should turn to cashing in quick-win opportunities to capture synergies and build integration momentum. High-priority projects should address the wide range of integration and synergy opportunities across the supply chain. For example, rapid contract renegotiations with suppliers serving both legacy companies to move purchases to best price and terms can generate cash to meet synergy goals and help fund future transformation.

The new supply chain leadership team typically is announced during this phase, and the organizational transition to future state begins. Integration activities that address headcount redundancies are implemented, along with required interim work-around processes. Implementing these changes in a timely manner can help to free-up critical resources to drive synergy projects that increase the speed to value realization.

The transition to a combined supply chain organization should engage employees and strategic suppliers in what is changing. Roadshows are often conducted to facilitate interaction with employees to inform and to gather feedback on the transition. It is important to pay attention to the people-related impacts of integrating two supply chain organizations. Too often, executives fail to adequately address these issues, which can result in productivity loss, employee attrition, and difficulty meeting synergy goals. Executives should consider which aspects of each organization can be used to create a new function that will support the supply chain strategy (Figure 3).

In addition to managing staff integration issues, executives will need to consolidate supply chain processes and technology platforms to successfully position the new organization for the third phase in the M&A lifecycle, post-deal transformation and growth. Executives should begin planning for this transformation by deploying the new supply chain strategy so that it supports business growth, improves collaboration with external partners, and drives operational excellence.

Case study

Situation:

- A specialty chemicals company sought outside advisory support to plan and execute a supply chain merger for a \$6 billion acquisition. The integration included three legacy company environments with operations in 10 countries.
- The organization had no structured approach or governance to identify and deliver supply chain synergy targets.
- In addition, the right data was not readily available from multiple ERP systems across legacy organizations and 25 legal entities.

Approach & impact:

- In the first 100 days after close, the client/ advisory team launched 30 out of 100+ supply chain projects to capture \$60 million in supply chain synergy benefits.
- The team captured \$4 million in arbitrage synergies for direct raw materials.
- The supply chain organization launched the first of a multi-wave strategic sourcing program that delivered \$2 million in synergies in the first 100 days.

Figure 3. Supply chain people integration challenges



Source: Deloitte Consulting LLP

Post-deal transformation and growth

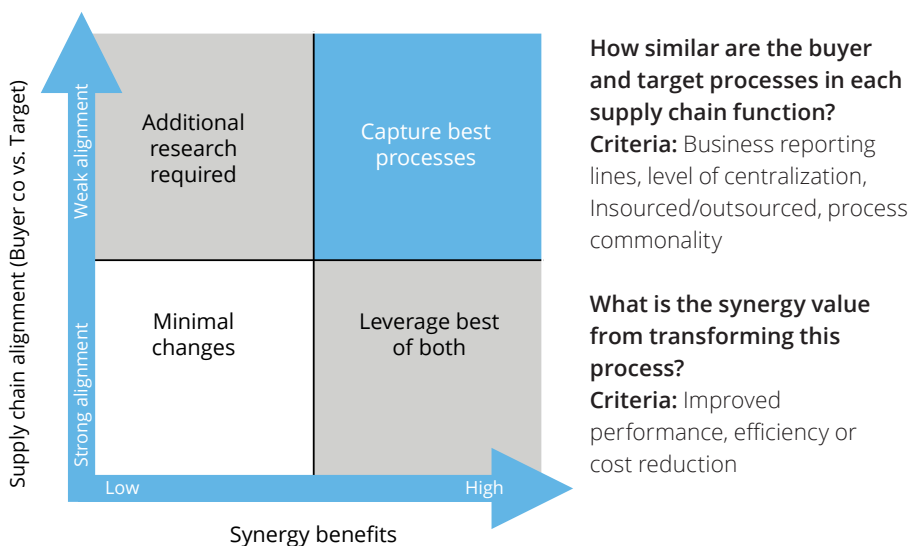
Following initial integration activities, supply chain leaders should focus on positioning operations for long-term growth and optimization. The challenge for executives during this phase is maintaining Day 1 momentum and not reverting to ‘business as usual’ too soon. This is especially true if the deal is transformational in nature. There is often significantly more upside in driving transformational changes versus incremental ones. Continued focus on larger-scale initiatives, such as sales and operations planning (S&OP) harmonization, strategic sourcing, or distribution network optimization, can unlock significant deal value.

Incremental synergy gains may be realized by adopting and institutionalizing leading supply chain processes from each legacy company. The framework depicted in Figure 4 uses an alignment analysis of current processes and comparisons to leading practices to help supply chain executives identify high-value integration opportunities.

In many cases, the acquiring company implements its standard policies, practices, and processes across the new organization; however, in doing so, it may miss out on capturing value from the target’s legacy operations. In addition to leaving money on the table, simply adopting the acquirer’s approach may have a negative impact on change management efforts with the acquired company’s employees. Conducting a rigorous “stare and compare” analysis across both legacy companies’ supply chain processes may yield significant opportunities that should be captured before too much change is instituted.

Finally, collaborating across the new organization is critical when executing a phased transformation plan. Harnessing the best of both supply chains can help minimize risks and capture value throughout implementation.

Figure 4: Supply chain synergy prioritization framework



Source: Deloitte Consulting LLP, 2016

Case study

Situation:

The world’s leading producers and marketers of concentrated phosphate and potash crop nutrients required assistance with Day 1 integration planning across business functions including Supply & Operations.

- The acquirer needed to substantiate opportunities for operational synergies owing to the proximity of the target’s phosphate rock mines to existing operations.
- The project team conducted a leading process assessment to evaluate 12 key supply chain functions across the three mines and three plants to incorporate the leading practices from both legacy operations.
- The team used an opportunity prioritization matrix to map processes across core operations and support functions, and to categorize them based on process alignment and synergy benefits.

Approach & impact:

- The project team identified and compared 21 high-value opportunities to leading practices across 11 supply chain functions.
- A current-state maturity and alignment assessment, layered with detailed, data-driven dashboards and performance metrics, helped build the business case for transitioning to the leading processes.
- Change management risks during the transition were mitigated by the acquirer adopting a number of supply chain practices from the smaller legacy target, which added significant scale benefit.

Conclusion

As stated earlier, supply chain executives play a pivotal role in achieving M&A-related business objectives. Not only are supply chain synergies a significant source of potential deal value, a transformed supply chain can be a critical enabler of long-term corporate growth and market

competitiveness. By including supply chain executives in M&A planning, the other deal team members can access the expertise and insights they need to identify potential deal synergies; integrate legacy supply chains with minimal impacts to customers, partners, and employees;

minimize post-M&A operational risks; and deliver differentiating results to achieve deal value and potentially, long-term competitive advantage.

Informed IT integration

Three-phase approach can boost M&A synergy capture

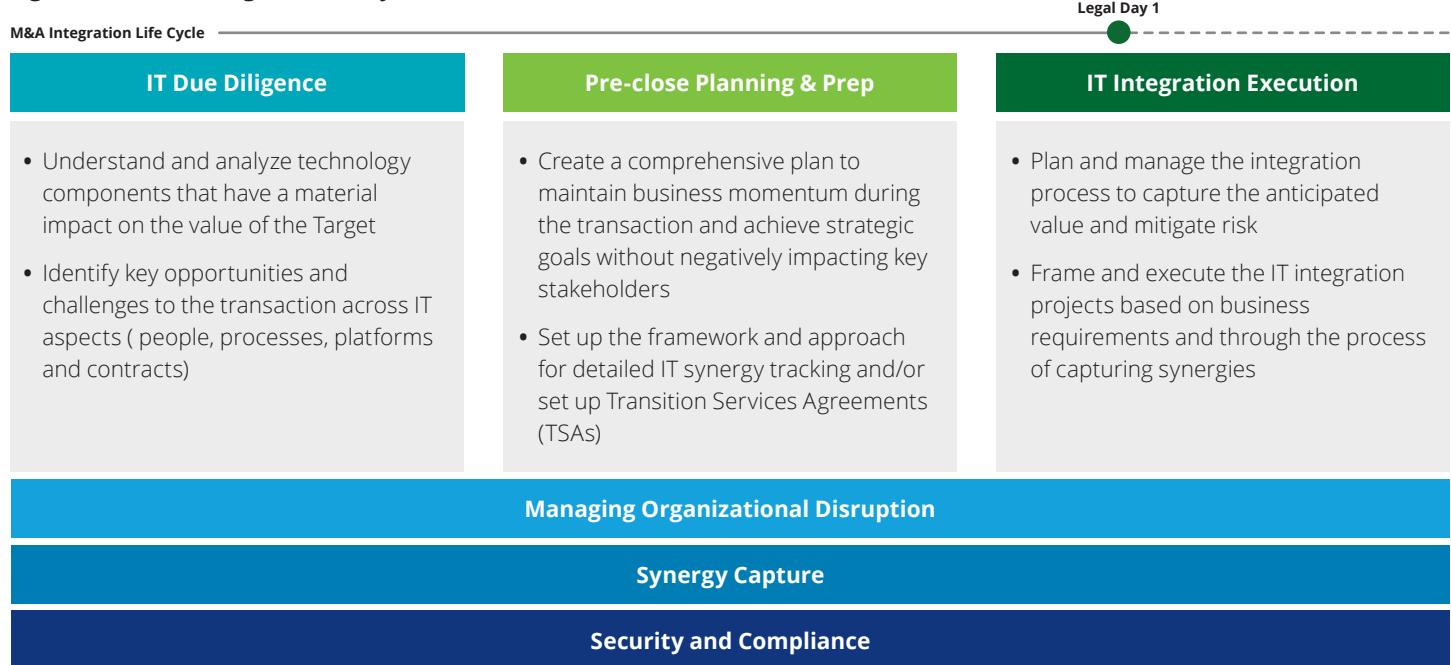
By Olivier May and Barry Chen

When a company integrates a large acquisition or engages in a merger of equals, the sooner IT leadership is involved in pre-deal planning, the smoother the integration is likely to be. While every M&A transaction is unique, they all involve rationalizing and integrating portfolios of IT systems, platforms, and applications that have critical impacts on products, services, customers and suppliers.

One of the biggest challenges during IT integration is to quickly deliver on a transaction's strategic business objectives while making sure that both companies' day-to-day operations continue uninterrupted during the rapid countdown to Legal Day 1 (LD1) and any subsequent consolidation or transformation. Early planning, ongoing collaboration between IT and business functions, and efficient implementation of

a three-phase M&A IT integration lifecycle approach (Figure 1) can help head-off potential issues and boost post-deal synergy capture.

Figure 1: M&A IT integration lifecycle



Deloitte's *Integration Report 2015*, a survey of middle management through C-suite executives in <\$100 million to >\$5 billion companies from various industries, showed that a smooth transition from a merger's beginning through Legal Day 1 correlated very highly with overall deal success. Survey respondents said the

most common barriers to successful integration were unexpected challenges arising from the speed and various phases of integration; and from communicating with employees, customers, and suppliers before, during, and after the merger. These challenges illustrate how crucial it is for Chief Information Officers (CIOs) and

Chief Technology Officers (CTOs) to have a clear perspective on how to 1) balance the complexities of integrating IT assets and sustaining business momentum; and 2) engaging internal and external stakeholders early and often.

IT due diligence: Buyer basics

The IT function is an integral part of business operations, yet it is often overlooked in M&A planning because some senior executives view it as an internal service provider rather than a key stakeholder. However, given the connective tissue of IT and other internal and external business functions, it is critical that IT executives be included on the deal team and lead IT due diligence during the target screening process.

IT diligence can uncover operational and financial risks that may impact the deal's overall accretive value (e.g., EBITDA) and identify key cost drivers for current and future-state IT environments by examining:

- Business and IT strategy alignment
- Business processes and supporting IT systems/applications
- Infrastructure footprint
- Applications and physical assets inventory
- Detailed IT cost analysis (including synergy opportunities)
- Data management platforms and analytics capabilities
- Operating model and employee skill sets
- Impact on customers and suppliers
- Critical operational risks
- Potential security and compliance risks.

This analysis should also serve as a key input to the deal's top-down cost synergy targets. For example, it is important to understand the operational health of a target's data centers and connectivity providers, as both could increase overall IT operational expenses (e.g., remediating the LAN/WAN, security violations). It's also wise to review the target's primary business systems, proprietary technologies, and level of business enablement, automation, organizational support, and skill alignment to determine the feasibility of capturing functional cost synergies.

In addition, conducting diligence on outsourced and third-party vendors can help uncover further financial risks and opportunities by reviewing:

- Contracts to identify cost-saving opportunities (e.g., increased volume ERP discounts) and risks (e.g., licensing violations);
- Vendor health and risks to highlight potential product support issues or vendor rationalization opportunities;
- End-of-life scenarios to reveal potential quick technology rationalization wins or to move to a more robust cloud solution.

Finally, the diligence process allows an acquiring company to assess the target's organizational structure, cultural fit, potential skill-set gaps or redundancies, and areas for immediate synergies. Evaluating the span of control within the company can quickly help identify redundant areas and feed directly into the overall synergy target, as long as culture and business stability are not disrupted.

Case Study: A global manufacturer planned to acquire a global leader in turbine-based power systems with a large shared services contingent. The IT diligence process identified key gaps in technology resources, infrastructure, and applications prior to deal close, thereby minimizing business continuity disruption. Diligence also provided interim and future-state IT organizational strategies, as well as a 100-day roadmap for a target-state application landscape.

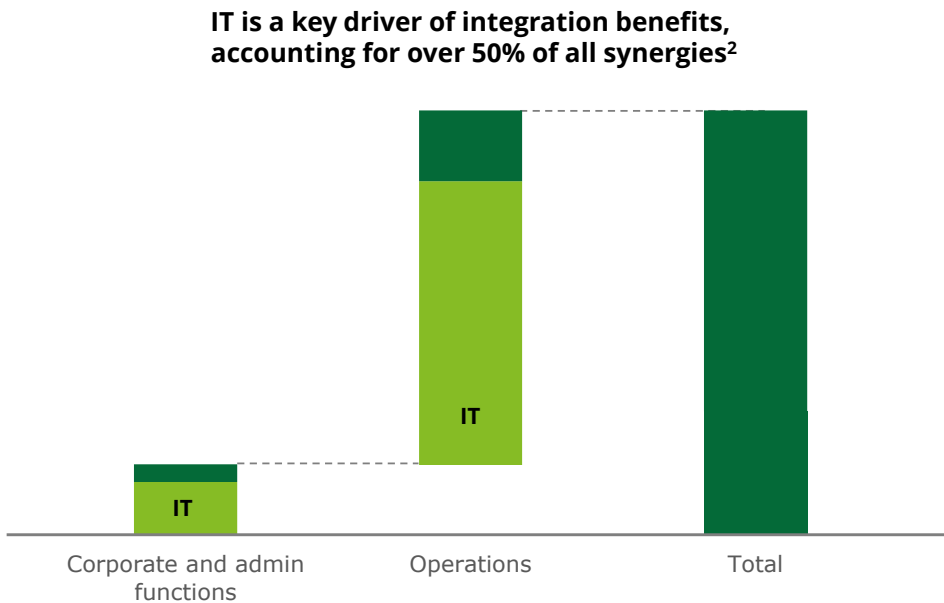


Pre-close planning: Start with the end in mind

Information Technology is a major driver of M&A benefits, enabling a significant portion of identified cost¹ synergies across the business enterprise (Figure 2). According to Deloitte's *Integration Report 2015*, roughly 18 percent of executives surveyed said they fell short of their initial synergy targets. Given overall deal synergy opportunities, it is apparent that if IT integrations are not properly executed, organizations may end up with lower synergies and higher realized costs than they anticipated.

As part of IT's participation in the deal team, the acquiring company's CIO or CTO should assess whether the deal objectives' estimated cost and time impacts are clearly articulated in the deal sheet. This will most likely pay dividends when making critical decisions around strategic platforms and setting end-state expectations.

Figure 2: Drivers of deal synergies



¹ This article will focus on cost synergies only as growth synergies are generally deal specific

² Source(s): Deloitte Consulting analysis of over 30 prior merger of equal transaction; Gartner IT Primer on Mergers and Acquisitions, Ansgar Schulte, February 2015

Defining business and IT priorities

While the IT function's overarching goal during M&A integration is to rapidly connect both entities and prevent business and operational disruptions on Legal Day 1, IT leaders should also focus on helping to quickly achieve the integration's strategic objectives. Engaging with business leadership during diligence and planning should help align and prioritize optimization objectives, project scope, and integration timeframe(s). As part of this process, IT should balance strategic priorities with the "art of the possible," and clearly articulate its delivery capability based on the proposed timeframe. In a 2015 survey, Deloitte found that over 50 percent of integrations were completed in less than six months (Figure 3);² a compressed timeframe may limit the objectives that can be realized prior to LD1, while a longer timeframe may increase costs, as the IT program will continue supporting integration efforts before realizing organizational synergy targets.

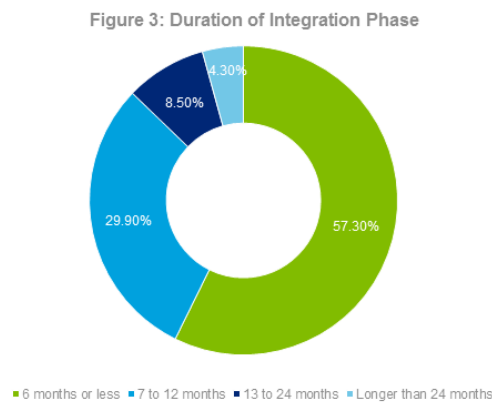
To accurately define the IT program scope and set expectations around department capabilities, it is critical that IT executives document and communicate to business leadership the integration options, timing, and risks. These conversations should be data-driven, collaborative discussions about prioritizing key capabilities. The goal is to clearly define a manageable IT integration roadmap that is supported by the business.

Once the initial scope is defined, IT should continue to use the "three-legged stool" approach (scope, speed, and cost) to illustrate potential impacts and risks of any proposed changes to the LD1 execution plan. Any increase in scope may strain IT resources and impede the delivery timeline, as they likely will require additional capital and/or resources to execute.

When all strategic decisions have been made and aligned to, it is helpful to conduct a pre-LD1 workshop aimed at developing a comprehensive end-state roadmap that will serve as the integration guide. The workshop should include IT leaders from both organizations; discussions should be structured around three phases, each with a set of distinct IT requirements:

- Legal Day 1
- Post Legal Day 1 (What can be achieved within three to six months after LD1)
- End State (typically 12 to 18 months post LD1).

Figure 3: Duration of integration phase



A. Legal Day 1 IT requirements

For Legal Day 1, IT should focus on providing basic services such as connecting wide-area networks (WANs) and email platforms, and enabling select users access to each other's critical applications or platforms (e.g., Finance may need access to both sets of financial systems to generate consolidated earnings reports, etc.). These tasks can be achieved by moving functional and business leaders at both companies through a series of speed-dating exercises, during which IT leaders ask them to quickly identify "must have" requirements for LD1. The list of must-haves should be kept short, both because of the typical time constraints associated with M&A transactions and because long-term solutions to achieve end-state objectives generally require different solutions and approaches. IT should drive the LD1 list-making process to enable the "art of the possible" and address key IT activities such as:

- Defining network connectivity requirements (e.g., customer data, internal messaging solutions, FileShare access)
- Accommodating new legal entity and branding changes for systems producing customer-facing documents
- Providing application access (e.g., time tracking, expense, talent portals)
- Enabling customer-facing applications to support sales and marketing strategies.

Note that the communication channels between IT and the deal team's governing bodies (e.g., Corporate Development, Legal) should remain open throughout integration to minimize security risks for both organizations.

² Deloitte Integration Report 2015

B. Post Legal Day 1 IT requirements *(typically three to six months following LD1)*

This is a period in which the newly combined organization typically rolls out significant operational changes. IT should focus on three concurrent objectives:

- Capturing “low-hanging fruit” synergies by quickly consolidating IT services and software license contracts for common vendors
- Supporting basic functionality that quickly allows the two entities to operate more effectively as a combined organization
- Enabling the various lines of business to begin realizing the integration’s strategic value by cross-selling goods and services to the newly combined customer base or launching new products and services into the market place.

As soon as the first round of organization changes has been announced, IT leadership should engage with functional and business leaders to determine the level of integration that will be achieved within each area. (This can vary greatly between back-office and front-office functions.) In addition, IT should further advance the integration project roadmap with detailed work plans that include milestones, start and finish dates, task owners, and inter-organizational dependencies. While executing these work plans and reporting progress on a weekly basis, IT leaders should begin planning how to achieve end-state objectives.

C. End-state IT requirements (typically achieved 12 to 18 months post LD1)

This is the “holy grail” for IT and the most difficult of the three objectives to achieve. When properly executed, end-state integration can help IT leaders rationalize the entire application landscape and consolidate data centers, WAN, help desks, and other IT resources. Working towards end-state integration

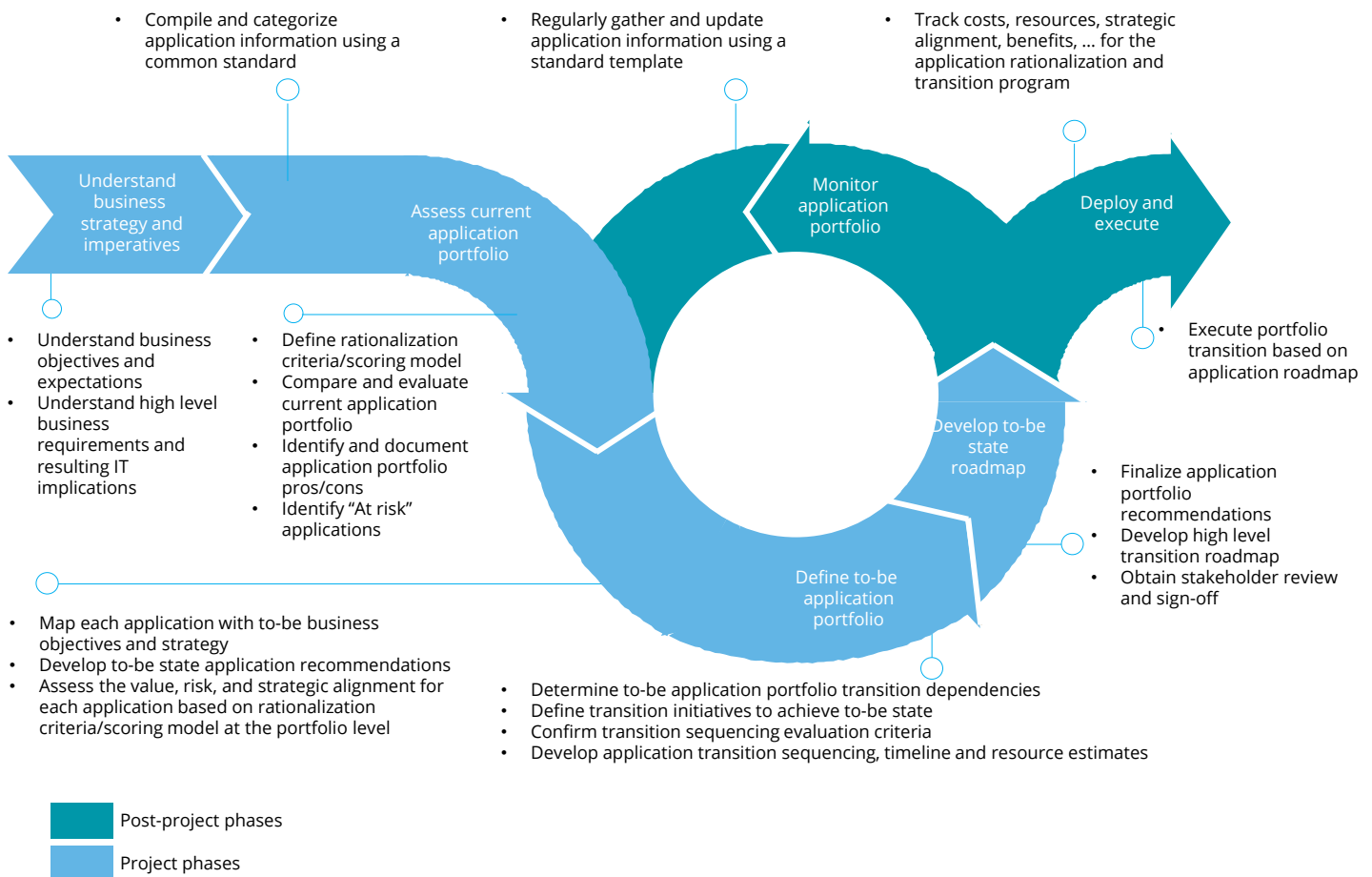
presents an opportunity for CIOs and CTOs to revisit strategic technology investments (e.g., infrastructure as a service, data analytics, and cloud) and assess whether this event could spur broader IT transformation. Given the current trend of moving applications from on-premises locations to cloud solutions, it may be possible to simplify the existing technology stack and detangle technical complexities which the organization may have delayed due to a diminishing IT budget.

Application rationalization

Application rationalization is a major cost synergy opportunity that typically yields a 20–50 percent IT footprint reduction, largely accomplished by reducing the number of overall applications, underlying infrastructure, and support and licensing costs. That being said, the level of IT and business integration will directly influence the magnitude of rationalization opportunities.

The process should start with a current-state view of all applications (e.g., ERP, HR, CRM, product lifecycle management, financial management, and financial reporting) and their respective processes and supported customers. Defining an application decision framework in advance (Figure 4) can allow the integration team to quickly identify rationalization opportunities and a recommended end state for the application portfolio. Potential criteria to be weighted for the trade-off analysis include business value, technical condition, total cost of ownership, growth enablement, and M&A readiness.

Figure 4: Application decision framework



Rationalization opportunities will vary and should be vetted with the business functions to align on timing and potential operation impacts. For example, the redundancy synergy targets may drive consolidation of back-office operations into a single shared services organization; however, this may have to wait until after LD1 and synchronize with back-office consolidation timing. Typical outputs of application rationalization analysis include:

- Consolidated application inventory
- Key end-state application decisions
- Application rationalization projects (including charters, teams, and timing).

Once the LD1 dispositions are established, the integration team will need to build and finalize the roadmap that details major execution milestones for application rationalization as well as cross-functional dependencies.

Case study: A global travel provider and investment company formed a joint venture (JV) and rationalized their financial systems by moving directly to a cloud solution. By partnering with a cloud ERP provider, the JV developed a common model that reduced 15 financial systems in less than 16 months, lowering maintenance costs and improving overall operating efficiency.

Infrastructure consolidation

Based on Deloitte’s experience, infrastructure consolidation represents additional cost synergy opportunities, often time independent of applications rationalization opportunities. Figure 5 illustrates typical consolidation opportunities and average reduction benefits.

Figure 5: Infrastructure consolidation reduction categories

Category	Source of savings	Benefits (reduction)
LAN/WAN/Voice and Data Network	<ul style="list-style-type: none"> • Cost reduction through consolidation, sourcing, and reduced band width requirements • Increased performance and reliability 	10%–30%
Storage	<ul style="list-style-type: none"> • Cost reduction through increased efficiency/utilization of new and existing technology • SAN, Virtual Storage Management deployments • Increased business continuity/disaster recovery 	20%–50%
Server	<ul style="list-style-type: none"> • Cost reduction resulting from platform consolidation and contractor reduction (or expanded service without head count increases) • Increased efficiencies through technical standardization 	10%–40%
Data center	<ul style="list-style-type: none"> • Cost reduction through consolidation (cost avoidance, improved real estate costs, operational efficiencies reduced capital investment, etc.) 	10%–25%
Mainframe	<ul style="list-style-type: none"> • Cost reductions and cost avoidance resulting from capacity planning, system consolidation and centralization, resource reduction 	10%–20%
PC Management	<ul style="list-style-type: none"> • Hardware/Software and support process standardization • Increased efficiencies from leveraging remote tools • Maintained or improved security service levels 	10%–30%
Maintenance contracts	<ul style="list-style-type: none"> • Cost reduction by validating inventory against billings • Extend reach and reduce technology cost via 3rd parties 	10%–30%
Help desk	<ul style="list-style-type: none"> • Additional outsourcing opportunities • SLA mgmt (align SLAs with end-user needs) • Cost evaluation against industry benchmarks 	10%–20%

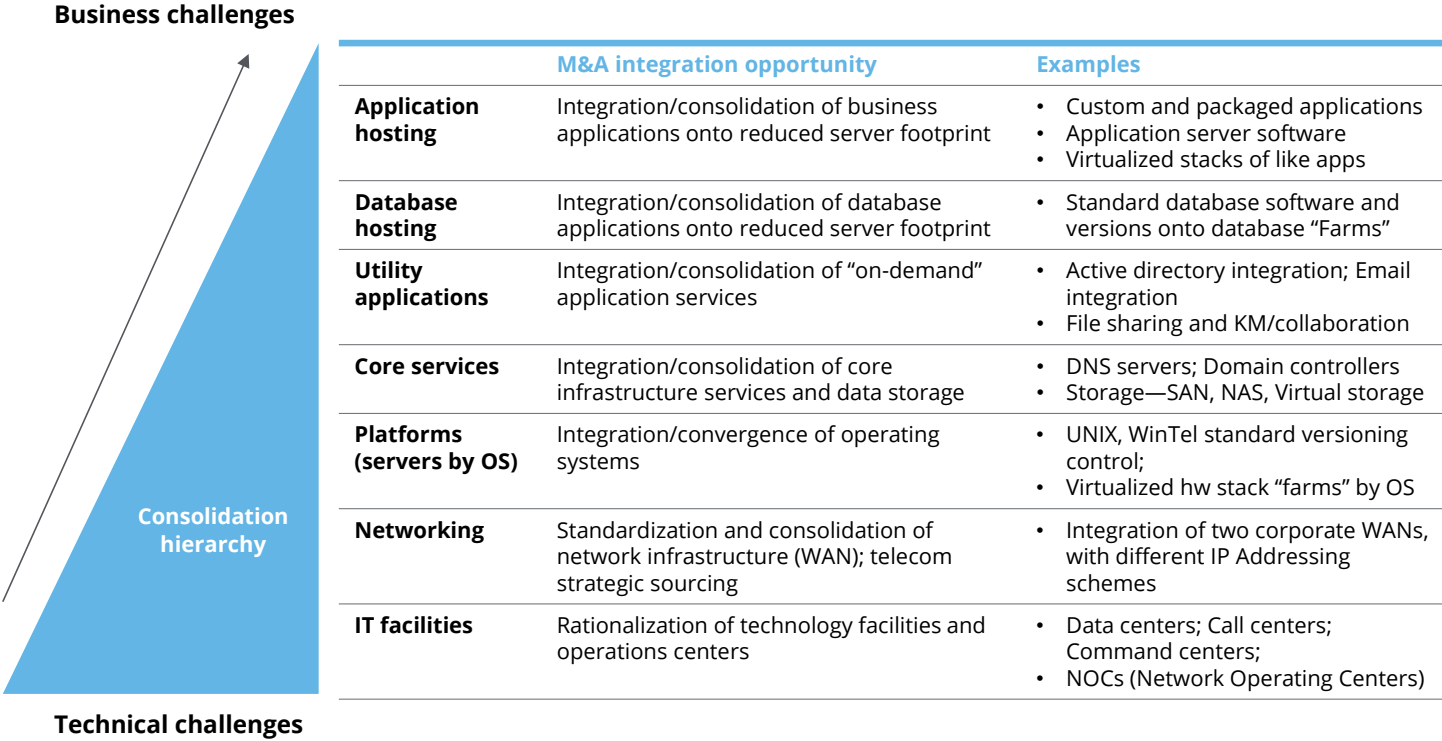
Leveraging findings from the planning workshop mentioned earlier can help the integration team understand the scalability of the infrastructure environment and minimize the amount of throwaway work and misinformed short-term investments. Focus areas typically include data center locations, networking, telecommunications infrastructure, core infrastructure services, and infrastructure management tools (e.g., authentication devices, and business applications (Figure 6).

It is important to note that not all of the target acquisition’s core infrastructure components should be considered in scope for potential consolidation. For example, if the target’s core business is eCommerce, it may make sense from a security perspective to keep infrastructure components for the external sites separate from infrastructure components for corporate applications.

In many scenarios, application rationalization and infrastructure consolidation have a cause-and-effect relationship, as the application rationalization opportunities may also translate into infrastructure consolidation wins. When pursuing either avenue, CIOs and CTOs should develop a fast and programmatic approach to select the go-forward environment or platform.

The challenge will reside in maintaining focus on revenue-generation activities, and supporting day-to-day business transactions, while pursuing cost-saving opportunities. In some instances, running two independent IT applications and infrastructure environments might be necessary to help continue revenue streams, until a joint go-to-market strategy and customer cross-selling strategy has been developed by the business leadership.

Figure 6: IT infrastructure consolidation opportunities



Managing transaction execution

Deloitte's *Integration Report 2015* found that "having executive leadership support" was the most important factor in a successful integration. All functional areas rely heavily on IT to execute for daily operations, and during a merger these interdependencies are heightened. Sales, HR, Finance, Marketing, Real Estate, etc., cannot execute their integration plans without IT first laying the foundation.

According to the report, enabling cross-functional and executive visibility into integration interdependencies and establishing effective oversight and governance (e.g., Integration/Project Management Office) were valuable to overall integration success in over 85 percent of deals.³ By operating under an effective governance model, the integration team can adjust plans, mitigate risks, and execute with full alignment. Without it, business functions may commit IT to perform tasks that may not be feasible by LD1 or may impact the integration program's overall success. Business and IT functions should open a communication channel early in the M&A lifecycle and maintain it throughout the integration process.

By this point in the lifecycle, IT executives and the integration team should have clearly defined and mapped the scope and resource requirements for all projects selected for LD1 and to achieve the post-transaction End State.

This plan should include both internal and external requirements, given that significant dependencies on third-party applications and environments will exist. The Integration Management Office (IMO) should continuously evaluate progress, resource constraints, and re-prioritize critical projects as required.

Focus areas for Legal Day 1

Depending on the new company's branding strategy, IT should plan to spend a great deal of time with Marketing/Branding or Communications teams leading up to the LD1 cutovers. Rebranding efforts typically go into full swing on LD1 and IT will play a vital role in launching a new website, synchronizing email addresses and potentially redirecting traffic from old websites or rebranding web sites in coordination with other marketing activities. Also, there are several important timing issues to consider, such as deploying announcements via external business websites before activating the company's new website, and documenting/distributing an Appropriate Use policy to all employees.

Controlling costs

On average, IT typically accounts for a significant portion (over 20%) of a merger's total integration budget, depending on the deal's size and complexity. Holding the line on transaction execution costs requires vigilance and ongoing monitoring. It helps to assign an IT team member to take ownership of cost tracking and provide a regularly updated dashboard view into the financial health of the integration. This will be especially important in areas using contractors, as the majority of these resources likely will be paid hourly and susceptible to time/effort overruns. If the IT department doesn't have a dedicated finance person, leadership should request that someone be assigned from the Finance team.

Approval for IT integration scope changes that impact project cost should follow existing internal processes for project financial management. Implementing a weekly governance cadence will allow the IT team to closely monitor activities

and billing to avoid unexpected cost overruns. It is imperative to educate the IMO and executive team on cost and timing implications for any decisions that may increase scope. On the flip side, while reducing scope can provide an opportunity to reduce short-term integration costs, if an activity is a prerequisite to drive greater consolidation and value into the business, then it is probably not a good choice for elimination.

Balance business and integration priorities

When two companies merge they should proactively and carefully address the cultural aspects and differences that may exist between IT organizations at both companies. Establishing a set of guiding principles can help to bridge cultural gaps, align on priorities, and set expectations for integration execution. These principles may be as simple as "do no harm" to the business or include additional guidelines such as focusing on optimization or delaying non-revenue-generating activities.

Keep in mind that prior to the M&A transaction, executives in both organizations may have approved and set in motion a number of large-scale IT projects. With the merger, some of these projects may no longer be relevant or they may be counterproductive to the integration strategy. An early step in establishing governance structure and cross-company team alignment is the consolidation and assessment of all active global technology projects and their continuation based on the current business climate. IT should coordinate closely with the business units on stop/delay decisions and, in some cases, a project disposition may need to escalate to the IMO for final approval. The goal is to keep the IT resource pool as focused on the integration effort as possible and avoid consuming resources in areas that do not clearly align with the go-forward strategy.

³Deloitte Integration Report 2015

Underlying integration issues

As the integration lifecycle progresses, each phase presents challenges and opportunities. Those organizations that can quickly plan, adapt, and react are often better-positioned to execute a successful integration and end state. Three underlying issues require IT executives' attention during the integration lifecycle:

1. Managing organizational disruption
2. Synergy capture
3. Security & compliance

The amount of required effort in these areas will vary from pre-announcement through post-LD1 execution, but all are key contributors to overall deal success.

1. Managing organizational disruption

Employee uncertainty and organizational disruption are natural outcomes of an M&A announcement. IT executives should manage concerns within the IT workforce as employees begin to churn on rumors and turn to social media platforms and analyst reports to clarify their future with the company. Minimizing organizational disruption calls for:

- Implementing a robust communication strategy
- Defining and aligning to a future-state IT operating model
- Developing a transition plan.

A clear, detailed, and honest communication plan can ease M&A-related employee anxieties. An IT communication leader closely aligned to the overall enterprise integration team should work with IT executives to create function-specific communication milestones and messages to share with IT staff to proactively manage their teams. As well, IT-related messaging should be included in the merger's overall communication plan to help customers (both internal and external) understand the transitional stages of technology platforms, help chains, and processes. The following framework provides guidance to address challenging questions.

Answers are not known, but there is a need to reassure workforce	Answers are leaked to the media and/or employees	Answers are known, but legal constraints prohibit immediate communicating to workforce
<ul style="list-style-type: none"> • Describe the integration planning process to answer open questions. • Promote increased leadership visibility; prepare IT leaders and ask them to spend time with their direct reports. • Don't make promises but be generally positive and upbeat about the deal. 	<ul style="list-style-type: none"> • Ensure communications SWAT team is trained and in place. • Implement contingency communication plan. • Work closely with the enterprise-level integration team to make sure approach and messaging are aligned. 	<ul style="list-style-type: none"> • Clearly communicate when more information will be available. • Keep staff focused on day-to-day work; reinforce the importance of staying on task while merger integration continues.

Undoubtedly, M&A-driven organizational change can be significant; it requires executive focus and commitment to manage employee uncertainty within the two organizations and select the most appropriate target operating model. Employee flight risk is a top concern, and added pressure from synergy targets may force IT leadership to make some tough retention decisions. The more successful IT organizations have a unified vision and communicate that to employees as soon as possible after deal announcement.

IT executives should work with HR and overall integration program leadership to identify critical IT roles and staff for short- and longer-term retention as the new company moves towards its targeted end state. There is no “secret sauce” to designing a future-state IT organization; however, it may be helpful to divide the target operating

model design into steps (Figure 7).

Integration provides an opportunity for a company to evaluate and modify its existing IT organization design to reduce costs, realign roles and responsibilities, reduce redundancies, and hire talent to achieve the desired end state. However, every action impacts current employees so senior IT leaders should be enlisted to develop and implement a clear transition plan to help their teams manage and navigate change. A common platform to align IT leaders is to host workshop sessions to discuss key topics such as:

- New company strategy and mission
- The vision for IT in the new company
- Key integration timelines across the enterprise
- Quick wins for the organization.

Once the senior IT leadership team is on board, the next step is to bring mid-level managers and supervisors into the conversation and communicate their value to accomplishing a smooth integration. The entire IT management team should then work with HR to create transition guides to use during one-on-one conversations with employees. Hosting an IT town hall can also help set a positive tone and articulate leadership’s commitment to IT staff.

Figure 7: Organizational design and selection methodology

Organization Design Step		Description
Step 1	Conduct a current state organization assessment	<ul style="list-style-type: none"> • Review due diligence collected on the acquired company • For both organizations, assess the drivers of IT performance, including things such as spans of control, number of staff in certain positions, clarity of job descriptions, talent/talent gaps, etc. • Establish decision guidelines such as using the new company’s business strategy to drive IT design, willingness to challenge the status quo, and criteria you will use to assess your final IT organizational design
Step 2	Define design principles and guidelines	
Review and Assess		
Step 3	Create the high-level operating model	<ul style="list-style-type: none"> • Define all major processes and sub-processes to be performed by IT • Group processes and sub-processes • Draw top layers on organization chart to reflect grouped processes and sub-processes • Draw next several layers on organization chart • Evaluate workload requirements and associated resource requirements • Define positions and associated competencies (selection criteria) for future IT leaders and employees • Work with HR to conduct job grading and banding • Define proposed governance and cross-functional touch points
Step 4	Create the more detailed organization design	
Review and Assess		
Step 5	Define employee slates and select employees	<ul style="list-style-type: none"> • Work with HR to identify all IT employees to be considered for future-state positions • Work with HR and IT leaders to select employees based on future-state positions and skill requirements

2. Cost synergy capture

Identifying IT synergy opportunities should begin early in the M&A lifecycle's diligence phase and remain a focus throughout transaction execution. The process requires aligning on and communicating synergy targets, and implementing an execution structure that can actively manage and track efforts towards these synergy goals.

Top-down synergy targets

IT is one of a company's largest cost centers. A merger creates potentially duplicative assets, people, processes, and technologies – a situation ripe for synergy capture. However, each company's structure, organizational maturity, business processes, and vision for service consolidation may drive value capture. Analyzing these driving forces will help IT leaders define which top-down synergy targets will be used to determine the merger's overall success and guide integration through program planning and execution.

Bottom-up synergy planning

Translating top-down synergy targets into tangible opportunities begins with a comprehensive current-state assessment of both organizations' IT assets. This inventory spans infrastructure, applications, staffing/organization, service providers, and more. The resulting analysis should align the integration strategy to synergy goals.

Operating model

One of the first areas likely requiring rationalization is each company's IT operating model. It is important to understand how things work today to formulate how they should work in the future to optimize both service delivery and spending. A model map typically defines how each organization delivers IT services; its staffing/organizational structure; insourced versus outsourced capabilities; and execution model. For example, defining a Legal Day 1 and target-state operating model is vital to aligning the right staff to the right roles. Expect conversations on headcount rationalization and staff synergies to start well before LD1 and to execute within 60-90 days of the event depending on the expected level of integration consolidation.

Applications

Merging two organizations typically illuminates redundant IT solutions and application rationalization opportunities. Decisions to retain, starve, or sunset applications should be prioritized in partnership with business units/functional areas. IT application rationalization can reduce future licensing, maintenance, staff, and hardware/data center costs – integrating financial and other business systems can further optimize the company's cost structure.

A major component of application rationalization is renegotiating vendor contracts and subscriptions. The end goal should be the establishment of support models which match deployment requirements and remove costs for products no longer in use after integration. This process includes uninstalling legacy and unused software followed by decommissioning or consolidating server hardware, ideally freeing-up licenses for other projects. An immediate focus area should be critical applications and vendors identified as high risk to successful integration or those with a high degree of redundancy. This approach should extend to optimizing server resources and taking advantage of licensing terms for virtualized environments.

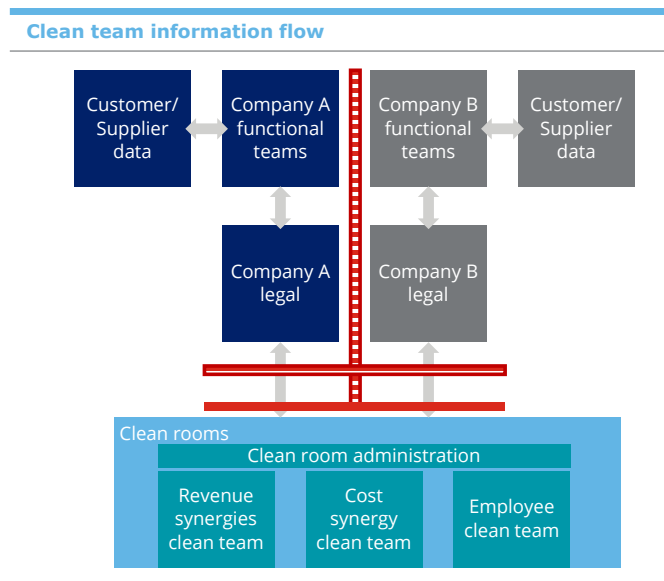
Vendor contracts

Early identification of contracts across both organizations, proactive planning, and ongoing communication can aid contract negotiations. A dedicated contracts team should develop a comprehensive list of contracts focused on realizing maximum synergies based upon the overarching contract strategy. The dedicated team should quickly analyze and align on contract strategies across existing software licenses, required new purchases, and synergy identification and realization plans.

The team can use a "clean room" to optimize this process and to legally and quickly share and analyze sensitive contract data between organizations (Figure 8). The team should also make sure that proper escalation and support is available for high-impact contracts or for vendors pushing back on contract terms (e.g., vendors using the opportunity to monetize the event, requesting re-buying of licenses already owned).

Figure 8: Clean room framework

Clean team definitions	
Clean rooms	<ul style="list-style-type: none"> A secure data environment, both physical and electronic, used to collect and analyze sensitive data Enables integration planning within the boundaries of the law
Clean team operations leadership	<ul style="list-style-type: none"> Works with Buyer to coordinate internal and external resource effort in the Clean room Oversees analysis, timelines and development of deliverables, providing quality control, decision support and status checks Manages parlor room and communication sessions for communication of deliverables before and or at close
Clean team administration	<ul style="list-style-type: none"> Administers clean room working procedures Works with operations leadership to populate status reports/operations updates Facilitates data collection and organization for clean teams
Functional clean teams	<ul style="list-style-type: none"> Analyze data, evaluate results, prioritize opportunities and develop final deliverables Prepare and deliver final recommendations



Commoditized technologies

Commoditized technologies such as data centers, computer hardware, telecommunications and IT networks, typically are the last big buckets of synergy value capture that IT will need to rationalize. Both companies likely have different data center geographies, rack footprints, hardware relationships, and communications partners: the integration team should assess the current landscape, develop a consolidation strategy that will eliminate duplicative costs in these areas, build the requirements and contracts behind each vendor relationship, and share them across the borders of the two organizations at Legal Day 1 to build the plan.

There can be many hidden costs in these relationships, such as term length, early exit penalties, minimum fee structures, and other potential expenses. Fortunately, the new company's larger size should enable greater per-unit discounts with vendors based upon buying volume.

Executing against synergy goals

As part of IT project planning for Operational Day 1, Legal Day 1, and post-Legal Day 1, IT should establish controls to identify, track, and monitor synergy realization. Not all projects will have an associated synergy capture goal, but it is IT leadership's responsibility to prioritize efforts for IT synergy capture to achieve the M&A transaction's goals.

Synergy capture should remain top-of-mind as the IT organization executes towards Legal Day 1 and beyond. Most, if not all, IT synergy realization will not occur until after LD1. There is a little breathing room, but executives should build a culture of opportunity identification, assessment, and tracking so that IT can deliver its piece of the financial pie for the new company. Steps include developing a common business process framework; collecting cost/revenue synergy plans and end-state business capability needs for each work stream; identifying process and IT-related initiatives to achieve end-state plans; prioritizing initiatives based on expected synergy capture; and leveraging a series of use cases to design future-state processes that enable each priority initiative.

3. Security considerations

With more organizations moving to cloud providers and Bring Your Own Device (BYOD), IT security becomes an ever-growing concern. Today's cyber threats extend beyond an organization's walls to include hosted data, e-mails, and mobile devices. For organizations that retain large volumes of customer/personal data, it becomes even more important to understand the maturity of a target's security governance and oversight capabilities.

Integration will expose the combined company to a new IT environment and, with that, new security considerations and potential regulatory or compliance requirements. Security teams from both organizations should quickly align and create an effective governance model to confirm their involvement in decisions impacting the security of the new IT landscape. Ultimately, the goal is to protect both organizations' interests and build confidence that no unnecessary risks will be taken as part of the integration activities.

Developing a collaborative relationship between the security and infrastructure teams is imperative. As IT begins connecting the respective networks, each company will be taking on the risk of any inadequate controls at the other entity. Major decisions made by IT leadership should answer questions including: "How does this align to our integration security expectations?" "Will this change impact our ability to maintain compliance? If so, what is the possible impact or mitigation approach?" Pre-LD1 activities such as testing potential network penetration and testing pre-LD1 connections between the companies tend to pay dividends in minimizing security vulnerabilities that require post-deal remediation.

In many organizations, the Information Security function integrates in tandem with the Privacy Officer (data privacy) and Legal (confidentiality). Close alignment of these areas during a merger is essential to confirm that legal lines are not crossed before it is appropriate to do so. For example, sensitive data such as customer lists or vendor contracts cannot be shared prior to Legal Day 1. Providing clear guidance to enterprise integration teams on how to maintain security and privacy controls, and establishing an integration governance body to review questionable scenarios can help minimize risk exposure throughout the integration lifecycle.

Moving forward

CIOs and their teams should engage early and often in a deal in order for IT to play a pivotal role for organizations striving to maximize the value of the transaction. From managing organizational disruptions to synergy capture to security and compliance, IT should remain actively involved to bring a clear perspective on how to balance the technology complexities with deal objectives while maintaining business continuity. Organizations that embrace IT as a key stakeholder and integral part of the deal will likely be better positioned for a smoother transition and successful end-to-end integration.



Driving M&A value through HR integration

Get it right from the start

By Mike Fuchs, Tom Joseph, Cliff Mansfield, Tom Seliga and Matt Usdin

The evidence is overwhelming: Acquiring companies can neither focus too much nor too early on an M&A transaction's people implications. Chief Human Resources Officers (CHROs) as leaders and the Human Resources (HR) function as a whole play critical roles in determining whether a potential deal realizes its strategic, financial, and operational goals. As soon as an organization begins the M&A process, HR can share vital business information and expertise that may influence the identification of potential partners, the

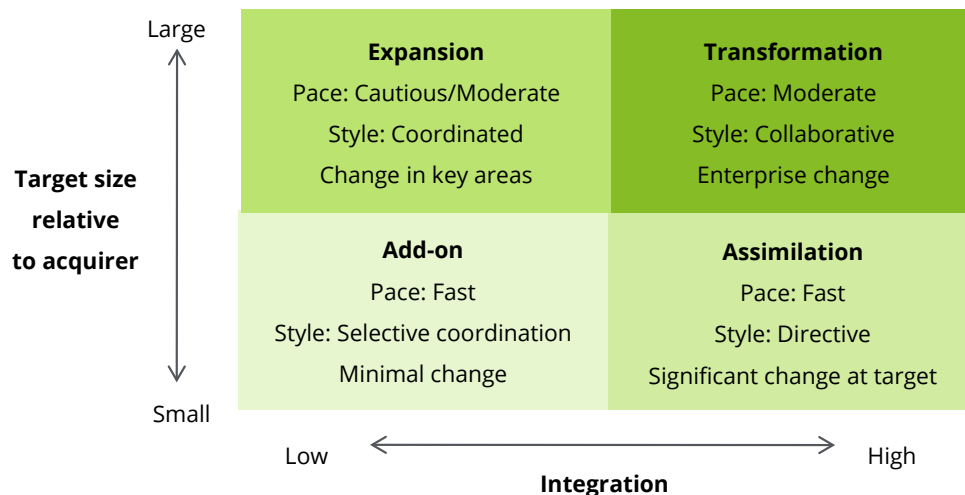
structure of the deal, effective timing for key decisions and milestones, and development of strategies to support a smooth integration. HR leadership also can lead the organization's efforts to identify potential business and human capital risks, and shape the strategy and integration plan. With HR playing a leadership role from the beginning of the M&A process, it is more likely that the organization will optimize a deal's financial and operational synergies.

Plan well: Understanding deal structure and HR's role

What should the "New Co" future state look like?

No two M&A deals are alike – each transaction's strategic and HR-related objectives may vary based on many factors. In general, most M&A transactions fall into one of four strategy classifications – transformation, expansion, assimilation, and add-on – according to deal objectives and the relative sizes of the acquiring company and its target (Figure 1).

Figure 1: M&A strategy classifications



Transformation: *Large target with high integration needs (i.e., merger of equals or “fish swallowing the whale”).*

In a transformative transaction, significant effort is made to consolidate HR systems, benefit plans, programs, and policies for the newly combined company (“New Co”). Typically, executives take the most effective processes and solutions from each organization or implement new, best-in-class solutions for the combined entity. When executing a large scale transaction, HR leaders may face significant challenges, such as meeting aggressive synergy targets for systems, benefit plans, and redundant resources; gaining leadership and organizational alignment; handling employee engagement and retention concerns; and addressing cultural differences.

Expansion: *Large target with low integration needs (i.e., large target that will maintain separate systems and/or programs with limited integration).*

In a typical expansion-focused transaction, the acquirer is widening its global footprint or adding a separate business that will not be fully integrated into its other business. Some effort may be required to meet synergy targets for systems, benefit plans, and redundant resources, including senior leadership; however, with limited integration, synergy opportunities also may be limited. For example, the existing HR organization may not possess the competencies to deal with the risks and needs of the new businesses and/or geographies. In addition, the expanded organization may need to rethink its leadership structure, operating model, and talent strategies, which adds complexity.

Assimilation: *Smaller target with high integration needs (e.g., target is assimilated into the acquirer’s strategic plans, systems, programs, and culture).*

Assimilation-focused M&A usually includes aggressive synergy goals for eliminating a certain portion of the target’s systems, benefit plans, and redundant resources (including senior leadership). Assimilation transactions tend to create significant change management and cultural issues for the target organization; however, the HR department should not underestimate the impact of the transaction on the acquiring organization.

Add-on: *Small target with low integration needs (e.g., the target is bolted on to the acquirer with limited integration).*

In a typical add-on transaction, the acquirer is bolting on a new business that will not be fully-integrated into the acquirer’s other business. These transactions are generally very fast paced, with selective integration between the organizations. It is important to understand and plan for the long-term goals of these types of transactions to determine the right Human Capital strategy to support the deal.



HR's role in an M&A transaction

Regardless of deal structure, it is imperative that HR leaders be members of the leadership team that is identifying synergy opportunities, assessing potential financial and operational risks, and developing deal terms. By involving HR early in the transaction lifecycle, the function's executives can provide analysis and insight to help achieve the following deal objectives:

Pay the right price for the business being acquired

- Provide input on the purchase agreement
- Assist with performing due diligence and identifying and quantifying integration risks
- Help to mitigate identified risks
- Capture people-related integration costs

Achieve growth and cost-saving targets

- Retain key employee populations
- Maintain employee engagement and morale
- Stabilize and optimize the workforce
- Assist with quantifying one-time costs and ongoing savings
- Enable productivity improvements
- Help to restructure the business

In addition to providing input to the deal team, the acquirer's HR organization will need to immediately execute on the HR integration strategy – and this starts

with getting its own house in order. The acquirer should not only perform due diligence on the target, but also conduct a self-assessment to understand the issues and limitations of its own HR systems and processes: Has the acquirer closed past deals that have not been integrated? Does the current transaction provide the opportunity to fully integrate past deals or improve current processes? Can the acquirer's systems and processes (e.g., HRIS and Payroll) scale to integrate the target? These are just a few of the potential issues facing HR in any deal.

Using a side-by-side, global and country-by-country comparison of the acquirer's and target's similarities and differences (e.g., structure, demographics, compensation and benefit plans, and HR policies, systems and processes), the HR integration team can develop an effective integration strategy. This should include guiding principles, estimated complexity, timing, and costs, and potential synergies and dis-synergies.

Based on the transaction's size and scope, as well as the acquirer's current state, the deal team should also determine if this is an opportunity for HR transformation. Whether it's a change in culture, systems implementation, or a harmonization of HR policies, procedures or benefit plans, M&A transactions can provide the opportunity to upgrade or transform the way HR supports the overall business. This may include adopting the acquirer or target's HR practices; combining the best approaches from each organization; or fully

redesigning HR systems and services. A strategic HR implementation plan should take into account, among other things, the leading practices for the combined organization (including cost analysis) and an understanding of the supporting infrastructure (e.g., communication, culture, leadership, staffing, etc.).

In developing a strategic integration strategy, the HR team should address the following priorities:

- Redesign or harmonize HR policies and procedures
 - Inventory all existing compensation and benefit plans and programs for both the acquirer and target, including service providers/vendors used; identify key differences (compensation, health and welfare, retirement, paid time off [PTO], etc.).
 - Identify transitional incentive and retention needs, including:
 - » Broad-based compensation and employee job leveling
 - » Incentive compensation – short-term, long-term, equity, and other programs
 - » Executive compensation and employment agreements, as needed
 - » Retention and severance plans.
 - Define future-state global total rewards strategy and philosophy
 - Perform gap analysis against the inventory of existing benefits plans to determine plan design recommendations by country – including cost implications and vendor requirements.

- Develop strategy to harmonize HR policies and procedures, including performance management and training and development.
 - Develop communications strategy for changing compensation and benefit plans, policies, and procedures (e.g., Frequently Asked Questions [FAQs], Summary Plan Descriptions (SPDs), employee handbooks, intranet sites, etc.).
 - Manage talent
 - Develop detailed, future-state organizational structure in collaboration with business leaders.
 - Review the future-state organizational structure and staffing model based on deal objectives and adjust as necessary.
 - Review the current employee census against the future-state staffing model and organizational structure to determine where talent gaps or redundancies exist.
 - Define the talent assessment and selection criteria, considering existing quality, productivity, and responsiveness measures.
 - Assess the selection process, including title/band mapping process and relocation opportunities.
 - Identify global employment issues including unions, works councils, transfer of Undertakings (TUPE), acquired rights, notice requirements, and potential redundancy payments.
 - Identify potential reductions in force, including severance costs.
 - Define relocation strategy, policy, and costs, including expatriate responsibilities.
 - Identify HR interventions to support organizational design (e.g., talent management priorities: job design, performance management, leadership development, learning and training, career mapping, succession planning).
 - Harmonize and/or transform HR operations (payroll and HRIS systems, shared services, etc.)
 - Develop country-by-country inventory of current payroll operations, vendors, pay calendars, HR data management, and HRIS tools/systems, including time and attendance systems and shared services support structure.
 - Identify country-specific data privacy laws that impact payroll function and HR data management.
 - Coordinate with the legal department on legal entities and country-specific payroll registration process, and with the finance department on banking and general ledger requirements for the payroll function.
 - Develop high-level integration roadmap for HR operations, technology, and vendors.
 - Determine implementation timing and any required Transition Services Agreements (TSAs), including service delivery requirements and costing.
 - Develop and implement go-forward HRIS/HR operations approach (HR people, processes and technologies, and vendor RFPs), including interfaces with general ledger (GL) systems and other enterprise resource planners (ERPs).
 - Estimate HR synergy savings and any dis-synergies from migrating to consolidated HR operations, technology, and vendors (HRIS, payroll, time and attendance, learning management, recruiting, etc.)
- Obviously, there is a lot to consider from an HR perspective when developing an effective integration strategy. By taking a leadership role from the beginning of the transaction, HR will be able to influence and gain a thorough understanding of the deal's goals and objectives and develop an effective short- and long-term integration plan that aligns with and supports the organization's overall efforts.

HR value impacts: Integration and transformation

During an M&A transaction, HR professionals are often expected to work across the enterprise to drive significant synergies through headcount reductions. This traditional view of HR's role is often overstated and, in some cases, myopic. When two organizations are combining, operations are often complementary rather than redundant. Sometimes, these organizations also have optimized their administrative functions to the point where the additional scale of the combined organization does not provide much opportunity for synergy realization. That is not to say that HR cannot drive value in a transaction; however, HR should understand the value that can be realized through both traditional and non-traditional means. The key is to dig deep from the beginning of the transaction and follow through well beyond deal close.

Deeper diligence: HR-driven value in pre-close planning & preparation

Prior to an M&A transaction, both acquirer and seller routinely conduct thorough due diligence. This process is vital for the acquirer to fully realize the strategic expectations set forth in the initial deal valuation, and is critical for the seller to determine that the acquirer is viable and capable of executing the transaction. Given that many deals are executed to gain operational economies, market share, technology, or geographical scale, due diligence often centers on meeting regulatory requirements, financial statement implications, and basic business functionality. There are significant HR-related value drivers in this diligence phase, such as analyzing retirement funding (the lack of which could add significant costs at deal close), and proper valuation of health and welfare plans. Thorough due diligence

may reveal potential “deal killers” in these areas, as well as other factors that could significantly hamper the long-term success of the transaction. Some of these key discoveries include:

Executive leadership risk: An acquiring company's HR and executive leadership should partner to review the target's development and succession planning for the C-suite and other executives. This analysis can identify if there is significant risk or weakness in the governance of the business. Also, many executives have “change of control” clauses in their employment contracts that can drive large cash outlays upon deal close. In addition to risk and cost identification, C-suite analysis can help the acquirer's leadership team determine priorities for organizational changes at deal close.

HR operating model misalignment:

Does the target have multiple HRIS or payroll systems? Has it executed a number of acquisitions but not had the time or resources to do a full HR integration? Does the target have multiple HR business partner structures, or multiple shared service centers? How many benefits programs does it have? Bottom line, there are many reasons why misalignment may exist in an HR model, any of which could sidetrack successful deal execution. An acquirer should assess challenges and risks early to determine the potential cost of misalignment and proactively develop a strong integration roadmap. This assessment also might highlight potential delays in achieving some of the deal's strategic, operational, and financial targets, and influence the overall deal price accordingly.

HR operations-related risks: This is a bit of a catch-all topic, but it can still be significant. It is critical that an acquirer ask the target about the number of open Equal Employment Opportunity Commission (EEOC) claims, active employment litigation, current Office of Federal Contract Compliance Programs (OFCCP) audits, and current Department of Labor investigations. A preponderance of these issues can provide significant clues as to the target company's HR's governance, its position on risk avoidance, and its corporate culture. This area tends to be “feast or famine”: In most cases, there are no significant issues, which would seem to indicate a properly managed HR risk position. When trouble is uncovered early, however, the acquirer may be better-positioned to mitigate or avoid associated risks and costs.

NOTE: *It is very important to involve internal or external employment legal counsel during these activities to ensure that the analysis is accurate and follows all legal guidelines.*

Finally, M&A team members should acknowledge that human capital opportunities and risks exist in every deal, regardless of scope. Giving HR an active voice early and often during a transaction may lead to significant cost savings and a reduction in employee-related risks.

Keeping the lights on throughout integration: HR's value as a business steward

As explained in this paper, strategic HR leadership can provide significant value during the M&A lifecycle. However, a number of tactical HR actions, when proactively implemented, can also add business value by “keeping the lights on,” particularly during integration.

HR Day 1 focus areas

While Day 1 is a significant milestone in a new company's life, it typically requires few, if any, noteworthy HR operational changes, such as benefits integration or payroll adjustments. That said, employees who are joining the new organization are likely to have questions and concerns that HR can help to address. Important HR Day 1 focus areas include:

1. Clarifying leadership structure:

Facilitating organizational design changes that become effective Day 1 means going beyond the typical announcement of who is in what leadership position. Using meetings and select strategic materials, HR should aid employee understanding of what the new leadership roles might mean down and across the organization, therefore alleviating some anxiety.

2. Managing and communicating change:

HR should work with Communications, Marketing, and other functions at both the acquirer and target companies to develop and communicate a change management strategy and implementation plan for Day 1 and beyond. The plan should address reporting structure changes, process redesign, technology changes, corporate branding, and more.

3. Striving for zero “breakage”:

HR, IT, and other departments should strive to make sure that any Day 1-related changes do not “break” existing systems. Even limited organizational changes

may cause disruptions in downstream HRIS and payroll systems. It may sound obvious, but ensuring that everyone in the new organization receives an error-free, first post-close paycheck goes a long way in helping employees at all levels settle in to the new organization.

Headcount synergies

As stated earlier, a well-known HR responsibility during M&A is facilitating the realization of headcount synergies. Often this is seen as identifying and eliminating organizational redundancies. For many companies this is where the exercise begins and ends. However, strong HR leadership can transform the pursuit of headcount synergies from a pure cost play to true organizational alignment. There are a number of ways that HR can add business value during this process:

Understand retention. Well-planned retention strategies can have significant impact and make every dollar paid count. HR staff should understand who the key employees are, why they should be retained, and what it will take to make retention meaningful.

Match the organization structure to the business model. HR should work with C-suite executives and department heads to match the expanded organization structure to the combined company's operational needs. The degree of alignment between operations and organization structure directly drives optimal cost reduction and operational efficiency.

Select talent wisely. Talent selection is fertile ground for inconsistent decision-making among hiring managers and senior executives. HR can help to drive logical, business-based employee selection by optimizing the process design, extracting the right data, and providing consistency throughout the hiring process.

Separate cleanly. Creating and executing a consistent and concise severance process can drive significant value during integration. HR can strengthen employee trust and protect the company's reputation by implementing a separation process that meets local legal and regulatory requirements and is guided by firm milestones, clear communication, and strict rigor.

HR integration

Combining two HR functions is not easy; sometimes, it may be the most prolonged portion of post-deal integration. While the overall concept is not necessarily complex, it requires flawless execution. HR Integration value is driven in a few straightforward ways:

Identify the value. What are the goals of the integration? What value is realized by combining vendors and systems? What are the risks? All of these questions will help shape the HR integration's strategy and purpose, and help the new organization achieve its expected value.

Do it once, do it right. Just because an organization can integrate one part of the HR function quickly doesn't always mean that it should. Minimizing the number of times a "change" occurs and having clear milestone dates when multiple changes will take place may help the HR team avoid integration burnout and employee confusion.

Sweat the small stuff. Effective HR integration, specifically HRIS, payroll, and benefits cutovers, requires paying great attention to the smallest details. Payroll deductions, payroll tax registrations, garnishments, reporting relationships, transition of deductibles and out-of-pocket (OOP) maximums, and payback of 401(k) loans are just a few examples of incredibly detailed items that – when not properly managed – can produce significant disruptions and costs. When it comes to HR integration, no detail is too small.

Communicate clearly and often. HR integration often brings a significant amount of change for employees and their dependents. The biggest stumbling block in this scenario is lack of information. Rumors, innuendo, frustration, and even anger can quickly fill the vacuum created by no information. Even if there is little of significance to share at a particular point in the integration process, telling people when they can expect an update may be all it takes to assuage fear and reduce misinformation. Bottom line: have a plan, communicate the plan, and execute the plan.

Test, test, and test again. Testing is a critical yet frequently overlooked step in HR integration. By creating a robust testing plan for HRIS, payroll, benefits, and other processes, HR leaders can help to deliver an issue-free integration.

The value of boredom

When is employee boredom a good thing? When it happens during HR integration. By providing consistent processes, clear communication, and goal alignment, HR can make sure that employees know what to expect and when, so they can focus their attention on their daily responsibilities. Boredom means that employees who are transitioning out of the organization are treated with respect and transparency. Boredom means that no one misses a paycheck or a payroll deduction. Boredom means the day after benefits integration an employee walks into a pharmacy and obtains their child's medication without issue. Boredom means all people-related

synergies and HR integration synergies arrive on time and in the expected amounts. In other words, HR developed and implemented its plan so smoothly that the integration was a non-issue and the expected value was created or exceeded.

M&A as a catalyst for HR transformation

The amount of upheaval involved with M&A-generated HR integration can be substantial. For many organizations, navigating this level of change can seem overwhelming, but within that transition, momentum for longer-lasting change can be created. Take, for example, a CHRO who has been seeking opportunities to reduce HR costs by moving transactional HR activities into a shared services environment. During project planning, the CHRO's company acquires another business of substantial size. The initial priority would appear to be completing the transaction prior to the HR shared services transition. From a strategic perspective, however, using the transaction as a change agent to merge both organizations into an HR shared services environment could create more value for the deal and the new company. Additional value an organization can realize by transforming HR during an M&A transaction includes:

- Accelerating and increasing cost synergy value realization
- Reducing the “us” versus “them” cultural dynamic as both organizations move into a new model together
- Leveraging deal budgets to accelerate optimization of the new HR model
- Avoiding perpetuation of outdated or inefficient policies, processes, or technology.

There are many levers that executives may pull to help turn M&A HR integration into HR transformation. Understanding the current state of each HR function is critical in selecting the areas of greatest potential impact for the function and the organization as a whole. For instance, perhaps the HR operating model is optimized but the talent

pipeline (acquisition, development, and succession) is fractured and does not have a clear line of sight through the employee lifecycle. An acquisition could add scale and momentum to jump-start a program to optimize the talent pipeline. Integration versus transformation is a sliding scale of possibilities. Executives should select the area(s) where the most value may be realized, create a compelling business case for their decision, and move forward with purpose.

Arrive early, work the room

If HR is not involved from the beginning of the M&A process, information vital to the transaction and subsequent integration may be omitted or underutilized. By understanding and assessing the value of specific deal drivers, HR can help to identify and prioritize people-related strategies, risks, and opportunities, and express potential options to the leadership team in relation to deal terms and objectives. Arriving early and working the room during an M&A transaction can elevate HR's role to one that will create value for the organization well beyond Day 1.



Lead with a winning hand

Positioning leaders for integration and transformation

By Davi Bryan, Tom Joseph, Don Miller and Matt Usdin

A merger or acquisition (M&A) is one of the biggest game-changing opportunities available to an organization and its leadership. M&A can open doors to new markets, fill talent gaps, improve operational performance, grow shareholder value, and even allow the expanded organization to shape a new culture. To fully realize anticipated deal synergies, the management team needs to lead with a winning hand: Achieving the desired results often hinges on executives' ability to engage the workforce and lead proactively, positively, and enthusiastically throughout the transaction lifecycle—including post-deal integration and organizational transformation.

Stacking the deck: Preparing the leadership team

Experienced CEOs know that a component of an effective M&A transition includes insulating customers from the uncertainty that a proposed deal may present. For this to occur, leadership should rigorously prepare to guide employees through the deal process while keeping it “business as usual” for customers. Preparation begins with selecting an operating model and leadership team to take the helm during the transaction. Smart first steps to consider include:

- **Design:** Define the new operating model, overall organization structure, and leadership roles that will support it.
- **Select:** Choose top-tier, transformative leaders—those who are able and willing

to engage stakeholders in fulfilling the vision for the new organization. Both the executive leadership and transaction leadership teams must be committed and patient throughout the deal lifecycle. Transactions require a steady hand, so it's imperative to find leaders who won't get flustered during this uncertain and dynamic time.

- **Engage:** Define each leader's role in the new organization and address their individual questions or concerns. You can't engage your workforce with a disengaged leadership team; leaders need to know what is expected of them and have no confusion about their roles if they are to achieve the desired result.
- **Communicate:** Tailor messages to address the concerns of each leader's key audiences. Employees notice when a message has been carefully crafted with their specific issues in mind.
- **Practice:** Provide rigorous training and practice sessions to help leaders polish their deal management and communication skills.

Upping the ante: Engaging leaders for success

Identifying capable individuals to lead the organization through an M&A transaction is an important step forward; however, effectively engaging these leaders to transform the post-M&A organization can make or break the deal. Preparing leaders for this important role may require that they:

- **Lead differently.** Post-M&A transformation often calls for new people management skills, especially if the deal combines organizations with dramatically different cultures. Executive and functional leaders should be coached on what to say and do to help move their organization in a positive direction. Training support should include establishing a collaborative environment with transaction planning that is transparent and synchronized; encouraging leaders to talk candidly with their people at every level and promote idea-sharing; and asking leaders to communicate specific ways their people can contribute to the new organization's goals and how they will be rewarded for those contributions.
- **Cultivate patience while driving performance.** M&A-related transformation is an iterative process that for many employees may seem chaotic or disorganized. The resulting anxiety and frustration can interfere with effective day-to-day performance. Leaders should set realistic expectations for employee performance, allowing them time to adjust to new ways of doing business. When leaders inspire and model positive behaviors, they can help to ease employees' concerns resulting from deal ambiguity, thus allowing them to concentrate on delivering an excellent customer experience.

Play it forward: Aligning the team

It's easy to spot a well-aligned leadership team by observing what they say and do. Acting as a unit, they share a consistent, clear vision of the future organization and the value it can provide to all stakeholders, including employees. With everyone playing the same game, the organization can attain the stability and direction it needs to undergo an effective post-M&A transformation. Unfortunately, there's no straight path to alignment. The process begins with a hypothetical future-state vision; one that changes and evolves as the leadership team debates ideas, concerns, and alternatives.

An effective way to develop and test various hypotheses is for senior executives to sponsor a leadership summit to explore operating models, cultures, and structures that may allow the combined company to deliver more synergistic value. Observing how the participants conduct and express themselves during the summit can also give senior executives insights to select the go-forward leadership team. The goal of the summit isn't to gain consensus. Rather, it's to extract sharp thinking that can drive the organization forward. To that end, leaders should aim to answer questions such as:

- Where are we going, and how can we get there? Start a conversation with the leadership team about how the new organization will create future value. The exciting thing about an M&A deal is that the place the new company is going doesn't exist yet—leaders and employees get to invent it. Collaboratively developing a clear end-state vision and an actionable strategy for how to get there are key steps to fostering an engaged transformation leadership team.
- How will the new organization operate? Defining how the organization will satisfy customers requires a thorough understanding of the people, processes, and technologies that are required to do so. Are the right capabilities and resources in place? Can they be adapted? If not, how and from where will they be sourced?

- What's required to realize the deal strategy? Project into the future. What needs to be done and how long will it take before the new organization achieves anticipated deal synergies?
- How will the team execute a seamless transaction? Has anyone on the leadership team been through an M&A previously, or does everyone need to sharpen their abilities and expand their skills to lead through the transformation?

Turn the tables: Creating positive buzz

It typically takes weeks, sometimes months, of thorough due diligence and skilled negotiations to arrive at mutually agreeable M&A deal terms. It's no wonder that leadership teams sometimes forget that certain stakeholders—including employees—may be caught off guard when they hear about a pending deal. Controlling the flow of information is critical to gaining and keeping the trust of the workforce. As mentioned previously, this means that news should be communicated with clarity and enthusiasm.

Leaders should strive to move beyond effectiveness to become influential communicators who create positive "buzz" around the deal. *Effective* leaders control potential rumors and speculation by considering the perspective of their stakeholders—analysts, shareholders, employees, vendors, and customers—as they respond to each group's concerns. *Influential* leaders go beyond control; they build stakeholder excitement and anticipation by communicating the anticipated value that the combined entities will generate in messages tailored to specific groups' interests.

Double down: Building a high-performing culture

A company's culture can be described as "why things work the way they do around here." Building or reshaping culture as a result of M&A takes planning and time. Transformational leaders can help to mold the future organization's culture through their words and actions—the way they treat stakeholders and where they focus their energy and attention. Table stakes for a positive company culture include a clear operating model that each stakeholder understands; an organizational structure that shows people where they fit and provides them with the proper resources and reporting relationships that they need to be successful in their jobs; leadership that's aligned to support common principles and objectives, and that is committed to "walking the talk"; rigorous standards for how leaders communicate; and talent strategies that are focused on retaining key competencies and engaging employees.

Split the pot: Everybody wins

An M&A deal can provide a rare opportunity to bring together the very best people, products, and operations into one organization; to create more value in months than in-house development can in years. However, delivering on this opportunity requires leaders to demonstrate skills that go beyond those needed for business as usual. By aligning, acting and speaking as one, they can help create a compelling vision for the future company and provide the support and resources to achieve this vision. A successful M&A deal requires transformative leaders who will empower and inspire employees to pull together and collectively achieve more than they ever imagined possible.

Regulating the pulse of an M&A transaction from announcement through Day 1

By Davi Bryan, Tom Joseph, David Russ and Matt Usdin

Effective employee communication is key to stability

From water cooler whispers to manager hints to executive announcements, an M&A transaction produces a steady stream of information (and misinformation). The pulse of a deal lies in the timing and mix of corporate messages; the challenge for an integration team is to regulate this pulse by providing message clarity and consistency, and promoting understanding among both existing and new employees.

Effective communication is key to maintaining organizational stability in the face of M&A-driven change and ambiguity. To create a cohesive and compelling messaging strategy, Human Resources (HR) and communications staff and integration team members should focus on:

- Sharing the facts
- Talking to leaders
- Setting the stage for a positive employee experience
- Establishing communications governance.

Sharing the facts

The period between deal announcement and deal close can be an anxious time for employees. A good way to reduce anxiety is to promote understanding. First and foremost, share the facts as early and fully as possible. Use initial communications to promote employee understanding of deal strategy, rationale, and terms, keeping in mind that specific deal terms likely will influence communications content, tone, and timing.

Deal strategy and rationale

Compile a reference library of deal facts and leadership quotes/announcements

to support development of a messaging strategy and high-level communications plan. Integration team members, and HR and communications staff should have easy access to facts such as deal size, number of employees, company acquisition history, headquarters location, executive biographies, and annual revenue.

Relevant questions: Which deal parameters are team members likely to reference throughout deal transaction and integration? What non-confidential information is available about the deal strategy and rationale? What projections have executives made about the value that the transaction will deliver?

Deal type

M&A deal type can influence the messaging strategy. For instance, if the target company is being acquired as an independent subsidiary, consider how to introduce its goals, principles, history, and successes to the buyer's employees (e.g., create a "getting to know you" feature series and post on the buyer's intranet). Additionally, be mindful of sensitive topics that might create friction and cause business disruption. For a stock deal, the expected integration level and timeline can vary greatly. Focus on providing consistent and accurate messages, and addressing employee concerns and avoid prematurely setting expectations by overpromising before leaders have reached final decisions on integration terms.

Relevant questions: How does the purchase agreement impact terms of employment? Specifically, how do deal terms dictate impacts to employment, compensation, benefits, equity, and retirement? What are the target employees' concerns?



Talking to leaders

In addition to sharing the high-level deal strategy and terms with employees, another integration priority is to set the stage for an employee experience that corresponds to leadership expectations and goals.

Uncertainty is an implicit component of change; in uncertain times employees look to company leaders for direction. If the integration team's communications and change management efforts do not correspond to the "straight talk" emanating from leadership, it will be challenging to maintain credibility with the employee body.

Meet with leaders to understand integration objectives and use these to construct a foundation of core messages and communications programs that align to and support the deal architecture and leadership strategy.

Note: See the "Critical People Must-Haves" section for further guidance on establishing a combined leadership team that is visible, accessible and aligned with one another on the vision, strategic objectives and values.

Understand the audience

Categorize employee groups in a way that makes sense for the new business. Whether the designation is by function, geography, business unit, employee level, or a combination of various factors, it is critical to understand who each key audience group trusts as well as how their leaders want them to feel about the journey ahead.

Relevant questions: How often should communication take place? What communication style is most effective? What is the appropriate vehicle? Who is the most appropriate person to deliver these messages? Which employee groups have the highest flight risk? What is the process for identifying key talent?

Create core communications themes

Talk to company leaders about integration objectives and consider how they can be consistently and thoroughly addressed through appropriate communications vehicles. Best-in-class programs often include communications themes around employee engagement and retention, improved productivity, innovation, scale, and operational effectiveness.

Relevant questions: Which terms, phrases, and themes are used frequently by leaders? Has the integration team considered a sentiment analysis pre- and post-announcement? What are the terms to avoid when discussing productivity, effectiveness, and synergies?

Setting the stage for a positive employee experience

Following initial deal communications, sharing leadership perspectives, and developing core themes and messaging vehicles, the integration team may face some troubling questions: How do we communicate when we have nothing new to say? How do we ease employee concerns when we can't answer their questions?

These issues may become particularly important when an estimated deal completion date is delayed, for example, while the M&A team obtains all necessary regulatory approvals.

Case in point: When a healthcare provider experienced a delay in closing a deal impacting over 100,000 employees in 30 countries, its communications team hosted weekly calls with country leads, partnered with the employee experience team to distribute delay FAQs to both buyer and target employee groups, and provided talking points and key messages for leader-led team meetings at manufacturing sites. When an integration team is hard at work on pre-close planning and there is no new information to share, focus on setting the stage for an effective Day 1 employee experience and easing employees through what can be an unsettling transition period.

Acknowledge employee nervousness about the future

An unfortunate hallmark of the post-announcement-to-pre-close period is employee unease. Brainstorm potential employee concerns among integration and communication team members. It is likely that competitors are poised to poach key talent, so head-off a potential employee exodus by providing tailored leadership communications that engender trust.

Relevant questions from employees: Will I have a job? Will my role change? Will my day-to-day work (laptop, commute, business card, email) change? Will my manager change? Will I have to switch offices? Will my compensation or benefits change?

Prepare leaders with talking points about outstanding decisions

Arm leaders and managers with talking points on outstanding decisions; this enhances credibility by driving a cohesive, consistent message across the organization. Be sure to include talking points on potentially sensitive questions that leaders may receive during integration planning meetings.

Relevant questions: What is the timeline for communicating organizational announcements and decisions? How is leadership committing to this timeline? Is there a chance that company headquarters will be relocated? How will employee benefits and providers be consolidated and what is the timeline?

Outline work council/regulatory body considerations

On deals with significant international reach, remember that work council and regulatory body considerations may exert considerable influence when determining access to personnel data (e.g., employee email addresses for communications), the timeline for organizational decisions, the sensitivity of communications approvals, and the sequence of messages in communications cascades.

Relevant questions: Which integration team members are managing work council/regulatory body relationships? What is the work council approval process for employee communications? Does the organization have a strong working relationship with local work councils? Are work councils aware of and aligned to the organization's high-level decision timelines?

Connect with target employees pre-Day 1

Build strong relationships with target company communications counterparts to understand the types of messages that resonate with their employees. Use this understanding to effectively connect with target employees prior to deal close and employee Day 1 – this can help lay the groundwork for a positive employee experience.

Case in point: During a recent multi-billion deal at a technology company, messaging was distributed across a diverse range of communication platforms including blogs, live webcasts, traditional newsletters, and an internal company social media site. In addition to developing compelling

message content, the integration team also performed an analysis of the mediums that most effectively engaged employees on both sides of the deal and harnessed the power of those platforms to control and regulate pre-Day 1 messages.

Relevant questions: How are target employees accustomed to receiving news? Does the target company have an intranet page for integration-specific communications? Would employees respond well to a joint message from the leadership of each organization? Is the target organization accustomed to receiving surveys?

Facilitate functional integration

Develop targeted communications that functional leadership can use to explain integration objectives to their employees. For example, the communications team can support the sales function by designing sales handbooks to promote cross-selling, creating a tailored sales communications plan, and featuring the function in broader integration communications as an employee group that is successfully adopting a “best of both” strategy.

Relevant questions: How will functional expectations change? Will targets and metrics change? What does success look like in the new organization?

Establishing communications governance

A structured communications and change management program provides a foundation that can flex to manage ambiguity and respond to changes throughout post-deal integration. Choosing the integration team, designing comprehensive plans to regulate the flow of information, and generating a positive company culture can accelerate and actualize the integration.

Pick the right team

Pick buyer and seller integration team members who have relevant expertise and a commitment to collaboration. Develop champions and change agents in both organizations to promote positive employee participation. The team should include collaborative, consensus-driven leaders who are dedicated to the effort and who understand the critical importance of communications and change management to engage employees and realize post-deal synergies.

Plan key activities

Partner with leaders to communicate tough strategic decisions such as office closures or separation notification timelines as early as possible. These key activities are not only critical to meeting synergy capture timelines; they represent significant change for employees and require extensive planning and preparation to execute successfully. Planning key activities goes hand-in-hand with monitoring effectiveness: Establish targeted and measureable metrics to evaluate the impact of change management efforts on integration.

Control the message

Keep stakeholders informed by providing consistent, accurate, and up-to-date information, and stay on message to help minimize the proliferation of rumors and speculation. Without properly controlled messaging, employees can easily become consumers of misinformation.

Case in point: During the integration of a small technology company into a larger technology company, an HR employee provided details about benefit changes to an employee prior to their scheduled date. The information was forwarded throughout the company and led to premature attrition, as the actual benefit plans had yet to be finalized. This underscores the importance of cascading messages through a limited number of trusted sources.

Enhance execution

Generate excitement throughout a sustained integration campaign to create a positive company culture. Hold leaders accountable for engagement and retention. Build a strong community and support network (e.g., by establishing a buddy program).

Finally, help to ensure that frontline employees have the right information and tools to prepare them for their future in the new organization. Regardless of the outcome of operating model and organizational design, each employee should feel engaged, supported, and appreciated to avoid business disruption and provide a smooth transition. A positive employee experience requires months of proactive, structured, sustained, and measured efforts that begin long before deal close.



People-related “must do’s” for the first 100 days

By Davi Bryan, Eileen Fernandez, Tom Joseph and Matt Usdin

The Watercooler Conversation

“Did you hear the news? We’ve been acquired.”

“I just heard, and I’m not surprised. We were all expecting it, I just didn’t know it would happen so soon.”

“So what happens next? Do we all still have a job and do we still report to Bob? He’s been a great mentor for me and I know how close you both are even outside of work. Do you think we’ll be able to sell the acquirer’s products along with our own? That would be a plus for my career aspirations.”

“Just be happy you have a job for now—if I guessed we will probably have less than more as a result of this integration, and let’s be clear, it’s an acquisition—not a merger.”

“True. I hope that I maintain my job, title, pay, continue reporting to Bob, and keep all my benefits. I also can’t afford to move locations and I hope I can keep using my Mac laptop.”

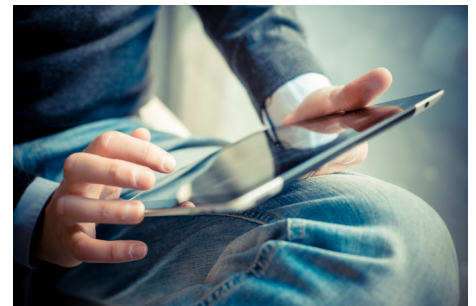
The deal has closed and you are welcoming the target company employees into your organization. What happens after “Day 1”? How do you engage with this group of employees and help them integrate into their new organization without disrupting the business? How do you deal with the watercooler chatter?

In the Deloitte 2015 Integration Report,¹ almost 30 percent of respondents said that their integration fell short of success, with the top reasons being the inability to deal with unexpected challenges and lack of preparedness. In this same survey, respondents also concurred on the key drivers for successful integration: executive leadership support, involvement of management from both sides and a robust communications program.

Regardless of which approach a company selects, ensuring a smooth transition from the beginning of the integration has a high correlation with overall success of an integration¹. Below are some critical people-related should-haves in the first 100 days of an integration to support success:

1. Provide a positive and seamless employee onboarding experience—address the “what’s in it for me” factor
2. Be visible, accessible and aligned—the combined leadership team must share the same vision, strategic objectives and values
3. Actively engage with employees—get them excited about the future of the combined organization
4. Be mindful of the longer-term future—deal with the present while moving toward the future state

In this article, we will examine key drivers for successful integration and offer lessons from client experiences about how they addressed people-related challenges in the first 100 days of integration.



Provide a positive and seamless employee onboarding experience- address the “what’s in it for me” factor

One reason that M&A transactions may fail is poor preparation for the critical post-merger period¹. Issues often overlooked in the planning phase of an integration include not only onboarding acquired employees so they can be successful in their new day-to-day roles, but also preparing for difficult conversations with employees by being as transparent as possible.

A successful onboarding program can make a complicated process feel simple and effortless. It starts with acknowledging that there is no such thing as “business as usual,” and it’s not necessary to pretend otherwise. Start by addressing the elephant in the room: What’s happening to people’s jobs, roles, titles and reporting structures? To the extent possible, address these questions before Day 1 and reinforce the message during the first 100 days. Also, create a positive—and seemingly effortless—employee onboarding experience coordinating across the organization with a dedicated team focused on onboarding. This team will play an integral role in supporting employees by providing the tools and resources they need to perform their jobs in the new company and environment.

Employees will need to know basic information, such as where to go, how to access the building, where to sit, and how they will be paid. Simple enough, but beyond this there’s a collection of additional transitions that employees will need to make. These include: transitioning to a new benefits plan, being trained on corporate policies, using new IT systems, aligning to changes in performance expectations and management processes, and systems. These transitions may require a change in behavior as well. For example, the way employees will be evaluated may change and it’s critical for an employee to understand performance expectations to eliminate surprises at year-end. A successful onboarding program will account for these changes and proactively address them.

Day 1 is your biggest recruiting day. This is when you recruit and re-recruit your people. Set the tone effectively by considering the following:

- Deliver inspiring messages about the future company vision, talent, and benefits to employees for both the acquirer and target
- Utilize multiple communications vehicles to reinforce excitement
- Conduct celebration-related events to highlight Day 1 as a significant milestone
- Provide people leaders and managers with expectations, tools, and resources to share information and feedback

The following checklist can help the onboarding team to onboard employees during the first 100 days.

- **Policies**—Provide sufficient communications, documentation and training, as appropriate. For example, policy changes in the first 100 days could include information about insider trading, code of conduct, gifts & entertainment, travel, etc.
- **Offer letters**—Provide reminders for employees to review and acknowledge receipt of their offer letters
- **Payroll**—This must work flawlessly so employees are paid on time
- **Benefits**—Assist employees to understand new benefit options so they enroll by the deadline. Successful organizations have hosted a series of benefit information sessions with employees who will be required to enroll in new benefit plans. Give enough lead time to process benefit enrollments to begin coverage on time; keeping in mind the nuances between regions for organizations that have a global presence

- **Day-to-day job functions**—Provide information required for employees to continue operating effectively in their roles

- How to use newly required systems
- How to collaborate with employees throughout the organization using technology
- How to access new facilities
- How to locate information about cross-company product lines for the salesforce if cross-selling is applicable

While these tactical steps seem easy enough to complete, they also have potential to go wrong. A coordinated, well-planned and well-executed integration is critical for success.

Be visible, accessible and aligned - the combined leadership team should share the same vision, strategic objectives and values

Leaders can influence and manage how organizations are integrated. Successful integration may require leadership to accept and commit to the new organization before the employees – then set an example and expectations for the employees to follow their lead.

To ensure leaders are prepared to achieve integration priorities, the combined leadership team should be aligned on the strategic vision and path forward for the new organization early in the process. Organizations often host leadership summits bringing their combined leadership teams together to align on the combined company vision, strategic objectives, and values as well as other important business topics. These are then cascaded throughout the organization. In addition to a leadership summit, business leaders should engage in tactical execution planning that focuses on how to influence and support the first 100 days as individual leaders and collectively as a leadership team.

Employees want to hear from their leaders just like the media wants to hear from athletes following a win at a sporting event. Sharing specific information and being as transparent as possible, will go a long way to inspire and motivate employees who are wondering about their opportunities in the new organization. Employees want to understand the combined company vision, stay informed through regular updates about the integration progress, and receive direct, tactical communications from their functional leaders regarding actions that directly impact employees. While it is important to have leaders champion the change, mid-levels managers are important influencers as they can hold the key to whether employees will stay or go. Mid-level

managers have more information than their employees about what the road looks like ahead, and are often more approachable for employees than senior leaders (it's not often that employees will ask senior leaders about job security or how to access new IT systems). Not all leaders and managers know how to lead well so be prescriptive about how they should act and what they should say. It's important to provide enough resources, tools and support to drive the integration and make it stick with employees.

The Watercooler

"Who is going to lead our function? Will we still have enough influence and authority over our products and sales approach? And what do you think of our new CEO? Does he/she 'get us' and how we operate?"

"I guess we'll have to wait and see. I just hope our leaders have enough courage to stand up and help preserve our values and pride and ownership over our products. I hope the acquiring leadership team understands what matters to us most."

Actively engage with employees - get them excited about the future of the combined organization

More and more, it is critical to pay attention to the employee experience, and even more so during times of change, such as an integration. The Human Capital Trends 2016 report² found that employee engagement is a business imperative for leaders at all levels – above all, the CEO – and no longer something to be measured just once a year by taking a look in the rear-view mirror. Engagement is an aspect of workplace life that should be continuously monitored in a proactive way. It is about the future of an organization; a measure of corporate health and a key window into the potential for future issues and workers' support for change.

Continuously monitoring employee engagement through mechanisms such as pulse surveys and focus groups will give companies insight into trending issues and employee concerns. Successful companies may implement a two-way feedback mechanism and a demonstration that leadership is willing to listen to concerns and engage in a dialog with employees. According to the Human Capital Trends report², there is a new generation of "pulse" survey tools and open anonymous feedback systems that can allow employees to share their experience on a near-real-time basis. The thoughtful use of such tools can create a true "listening environment" for employees while giving leaders critical insight into what's working and what's not working throughout the integration. This helps leaders to adjust their communications approach accordingly.

The Watercooler

"I can't decide if being acquired is a good or bad thing."

"It's usually a bad thing, but let's give it a chance and see what leadership says and more importantly does. Let's see what type of tone they set."

Be mindful of the longer-term future - deal with the present while moving toward the future state

Once you reach Day 100, you are just getting started. It's important to take the momentum that you have built with an eye toward the longer-term future. A great deal of focus is put on Day 1 and the first 100 days, as it should be. However, employees will decide if they want to stay or go. Those who stay will likely expect to see how the vision and goals set in the first 100 days actually come to life. Completing the entire integration often takes months beyond the First 100 Days. A longer term transition plan, "Day 2" is essential for moving toward the end state. Identifying owners and timelines for future efforts, such as fully integrated HR services, will continue the integration process over the longer-term and create a new, combined organization that realizes the vision and goals announced on Day 1.

The Watercooler

"We heard a lot on Day 1 from the CEO and leadership team, but where have they been?" Is everything that they said on Day 1 still going to happen?

"I haven't seen much change since Day 1. It was probably just a "feel good" speech to create excitement. Who knows what might happen next."



End Notes

1. The Integration Report, "Putting the Pieces Together", Deloitte LLP, March 2015, www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-integrations/us-ma-integration-report-030415.PDF
2. Global Human Capital Trends, "The New Organization: Different by Design", Deloitte LLP, March 2016, www2.deloitte.com/content/dam/Deloitte/global/Documents/HumanCapital/gx-dup-global-human-capital-trends-2016.pdf

Safeguarding M&A deal value Managing culture clash

By Sarah Hindley, Ami Rich and Matt Usdin

The culture-performance connection

Company culture can have a significant impact on company performance. Indeed, decades of research support a direct link between culture and indicators of financial and nonfinancial performance.¹ While the exact formula relating culture and performance has proved elusive, it is clear that companies should consider culture as one of the key levers they can pull to sustain and improve performance. By effectively understanding and shaping their culture, companies can drive business strategy and achieve their operational and financial objectives.

Performance is always a top-of-mind issue for executives; even more so during a merger and/or acquisition (M&A) because M&A transactions are subject to increased investor scrutiny. Moreover, M&A introduces an element of uncertainty and potential volatility into financial results, even for consistently profitable companies. As a result, there is an imperative for executives to carefully manage their company's culture throughout a transaction.

Failure to address culture during M&A deals can impact a company's performance in subtle ways. Delayed integration due to cultural inhibitors can lead to opportunity costs or breakup fees if the deal stagnates or gets called off. Productivity and innovation can decline if employees begin to question if the culture they "signed up for" will change. Employees of the acquired company may experience a sense of alienation when confronted with the perceived dominant culture of the buyer, leading to turnover. The departure of key talent with unique, high-value skill sets can erode profit margins as hiring managers scramble to fill gaps.

The bottom line is that culture is inextricably linked to performance, especially in an M&A context. The question is not if—but how—companies should manage culture to safeguard the value of an M&A deal.

Managing culture clash

While business leaders generally recognize the importance of assessing and managing culture during M&A, many apparently do not feel equipped to make culture-related strategic decisions. According to one study, 54 percent of leaders believe that neglecting to audit non-financial assets such as organizational culture increases the danger of making the wrong acquisition; however, only 27 percent of them made cultural compatibility a priority during due diligence.²

Yet, it doesn't have to be this way. By recognizing cultural differences and applying a structured, objective approach to work through the barriers created by misaligned cultures, merging entities may mitigate the risks of a culture clash on the way to a successful, value-generating integration.

Cultural issues may derail integration planning

A mismatch in the values and resulting behaviors that companies consider core to their existence can create challenges during integration planning and, possibly, deep-six integration efforts. Consider the case of an American company that decided to acquire one of its Japanese competitors. The integration process was expected to be fairly straightforward. Executives at the acquiring company were used to setting and achieving targets fluidly by making quick decisions and rapidly iterating on those decisions. Substantial, cyclical restructuring of large swathes of the workforce typically was part of the process.

Executives at the Japanese target had a very different approach to decision-making. They believed it was important to carefully build consensus to achieve buy-in and alignment across the organization. During integration planning, some key decisions sat on the table for more than a year while all stakeholders engaged in the discussion.

In addition, Japanese company executives' understanding of the employer-employee relationship differed. To them, a corporation existed first and foremost to employ people. Many employees expected to work at the company for their entire career, with an average tenure of over 25 years. Leaders believed that reductions in force were simply not an option.

Together, these cultural factors—the magnitude of which was not fully appreciated during due diligence—combined to prolong, complicate, and frustrate integration planning efforts. Ultimately, the failure to consider culture hindered the companies' ability to preserve the transaction's short- and long-term value.

Culture: A key to effective integration

A merger or acquisition is founded on an *investment thesis*—a definitive statement of how the deal will create value for the buyer. It's often backed by projected revenue synergies and cost savings to justify the deal to investors. Whether the goal is to consolidate power in an existing market or to enter a new line of business, the investment thesis becomes the backbone of the deal's integration strategy.

However, if the strategy does not culturally resonate with the people who are expected to make it a reality, integration may falter. Effective strategies often inspire employees to go above and beyond, forging emotional connections that motivate people to “go the extra mile” throughout the deal life cycle.

Emotional connections catalyze and sustain integration

While many leaders recognize the critical role that culture plays during post-deal integration, the actual mechanics of transforming culture are much less widely understood. However, emotions may hold the key. As Deloitte observed in a recent report: “Emotional connections are especially important for getting people to change their behaviors because habits are tough to break with reason alone ... Rational appeals, monetary incentives, and changes

to the performance management system are certainly important. However, leaders should also inspire employees toward the social value they will create with this new strategy—how they can help solve new kinds of problems for people. When employees have purpose and an emotional stake in the company's success, they will typically push through a new strategy despite obstacles.”³

In an M&A context, this likely means that it is more important than ever for leaders to make sure their integration strategy resonates emotionally with the employees who will bring it to life. This starts with storytelling. For a health plan, for example, it might mean framing the integration as an opportunity to improve the health and well-being of more members at lower cost. It is important to define a deal narrative that employees will want to support. Purely rational deal objectives like increasing efficiency to deliver greater returns to shareholders are unlikely to motivate and inspire, no matter how many times leaders trumpet them. A powerful deal narrative that draws on emotional connections can help to transform the natural emotional response to a merger announcement—a mixture of excitement and trepidation—into a commitment to a higher purpose.



Global deals: Unprecedented complexity and cultural variability

Today's cross-border deals present tough choices for leaders, even those who make culture a priority. In a review of complex global organizations, James Heskett observes, "In many cases, a 'one company' culture is very difficult, and may be uneconomic, to achieve. A common set of values may be the most that a global organization can hope to achieve. But the same value may be interpreted in different ways depending on local assumptions ... what does it mean to managers on an everyday basis in similar jobs around the world? How do they interpret it in practice?"⁴

It can be difficult to manage cultural nuances in deals that span multiple countries or regions. During integration planning, deal teams should account for both companies' geographic and cultural variabilities, and use them to develop integration strategies to bridge any gaps. However, integrating company cultures is not the same as integrating business processes—it is not possible to simply select best practices and rationalize workflows. Organizational culture spans borders and functional boundaries, and is of profound importance to employees and leaders alike. Cultural integration should be handled with care, given the volume of simultaneous changes occurring during a deal. Leaders need to take into account both companies' distinct cultures and subcultures, which likely have developed organically over time, and select positive aspects from each to incorporate in the new company's culture.

When two companies merge, the most apparent cultural differences typically are at the corporate level, where shared beliefs about the company's mission, collective values, and work processes are common foundations of organizational culture. In the health plan example, the buyer might frame its mission as a commitment to be as efficient as possible to reduce costs for members; the target, meanwhile, might place a premium on innovation and integrated care to improve health outcomes for members. While both companies have

a similar focus on the customer, they pull different cultural levers to achieve their goals of efficiency and innovation. Cultural variability also may be observed in regional and country-level nuances and norms. Commonly accepted beliefs about how business is conducted can play a major role in global mergers and acquisitions. Attitudes about the social impact of restructuring and how decisions should be made are among common cultural differences that can directly affect an integration team's ability to deliver on a deal's projected value.

Geographic boundaries are not the only hallmarks of cultural divides in modern organizations. Differences may also exist within organizational subcultures—functions, subsidiaries, and prior acquisitions. In a health plan example, one company may have an Information Technology (IT) function where the top priority is innovation while the other company's IT department is primarily focused on mitigating cybersecurity risks. Failure to recognize and manage influential subcultures can undermine integration efforts and, ultimately, the ability to achieve synergy targets.

Global deal's communication breakdown

As cross-border M&A becomes more common, business leaders will need to account for the cultural realities of where, why, and how the deal participants do business. A merger involving two American companies illustrates the challenges of managing culture in a global deal. Regional and country-level cultural nuances were not initially considered to be limiting factors in this deal, as both companies were headquartered in the United States. However, the target company had a significant workforce population in Germany, while the acquiring company did not. As integration work began, country-level differences in business norms and attitudes began to undermine the cultural integration of what appeared to be two American companies with similar interests. For example, some of the target's German employees felt that from the time the deal was announced the buyer's CEO had an overly bold leadership and communication style. The CEO quickly earned a reputation for being brash, which delegitimized his role in leading the integration process and hindered the two companies' ability to work together to realize deal value.

The CEO's style was just a symptom of a fundamental cultural issue: American and German workers tend to communicate and collaborate in different ways. Recognizing this, the deal team developed cultural interventions for both organizations' leaders and integration team members. By educating them about the differing work styles, cultural norms, and employee perceptions, the team was able to help the companies establish a foundation for cultural understanding and integration. This enabled everyone to work together more effectively and created a tangible financial impact by averting a prolonged integration process.

Cases like these show that failing to address culture early and often in an M&A transaction may have disastrous results, including jeopardizing leaders' ability to meet immediate commitments to the investment community when synergy targets are missed.

Managing cultural issues throughout the deal lifecycle

While almost all executives recognize the value of managing culture in M&A deals, it is not easy to turn that understanding into a viable and actionable integration approach. Part of the challenge is that some leaders do not address culture early enough in the deal lifecycle. Many of the most successful acquisitions will identify each company's core cultural strengths and acknowledge cultural differences early on – preferably as soon as the due diligence stage, given the deal constructs.

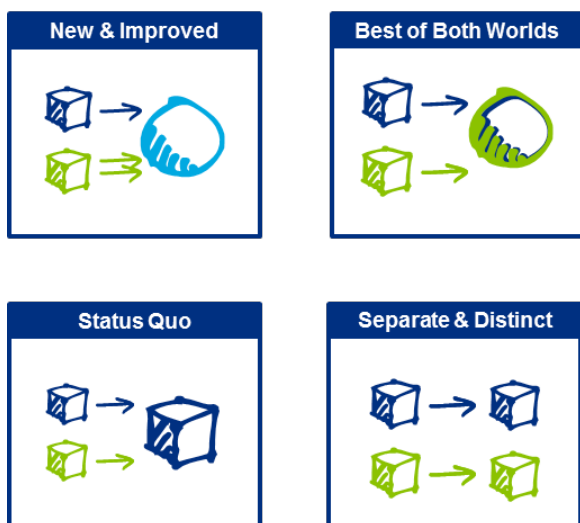
For culture change to be sustainable, issues must be managed throughout the deal's lifecycle, starting before the merger is announced, accelerating during the first 100 days of post-deal integration, and continuing even after the integration is well underway. This vigilant approach requires that the integration team develop a cultural integration strategy to enable the desired business outcomes based on the deal's investment thesis.

Pre-close preparation: Developing a cultural integration strategy

A cultural integration strategy should align with leaders' future-state vision and support the deal's value proposition and targeted business objectives. Merging entities may choose to maintain separate and distinct cultures with little or no overlap; synthesize an entirely new culture; combine the existing cultures by incorporating the best aspects of both; or adopt the dominant, status quo culture (Figure 1). For instance, if a holding company acquires a smaller company with the goal of bolting it onto the existing portfolio of companies, it might make sense for the buyer and target to maintain and respect their distinct cultures. Conversely, if the deal rationale is to achieve economies of scale through consolidation, the preferred strategy may be to combine cultures or adopt the dominant culture to maximize operating synergies.

In some cases, companies may decide to conduct a culture assessment before selecting an integration strategy so that they better understand the cultural attributes of each company – what each values and believes and how each behaves. This assessment can provide early input into what the high-level cultural integration strategy may be. In the vast majority of cases, however, leaders typically select the strategy based on deal due diligence. Companies that delay selecting a cultural integration strategy and implementation plan risk undermining the potential long-term value of the deal.

Figure 1: Cultural integration options



First 100 days: Assessing cultural variability and opportunity areas

It is critical that cultural integration teams develop an objective understanding of the cultural variability that exists both *between* and *within* consolidating companies so that cultural interventions can be targeted when and where they will be most effective. Cultural assessments use qualitative activities, such as interviews and focus groups, and quantitative diagnostic tools to provide the information needed to understand and act on cultural variability.

Deploying a diagnostic tool such as Deloitte's CulturePath™ facilitates an objective assessment of the organizations' current state and helps define culture in tangible and measurable terms. A diagnostic tool analyzes core indices that are foundational to organizational culture and differentiating indices that can ultimately drive differentiated business performance.⁵ In the first 100 days after deal close (or before close, if possible), it is important to identify where each company falls on the spectrum of core and differentiating indices to make the decisions needed to achieve business synergy targets.

The ability to leverage differentiating indices of culture can be a critical enabler of cost and revenue synergies, especially during the first 100 days. For example, an organization with a courageous, committed culture may face adversity more confidently, overcome resistance to aggressive synergy targets more easily, and be less reluctant to make tough decisions such as headcount reduction. An organization with an inclusive culture may be more open to accept all ideas, no matter how out-of-the-box, to identify potential synergies that could increase the overall deal value.

Cultural diagnostic tools like CulturePath™ help empower leaders by providing the cultural data points they need to identify unanticipated risk and opportunity areas. They also allow leaders to get to the heart of what is needed to make an M&A deal successful and lay a foundation for differentiated performance in the future.

Culture assessments are not solely for identifying risks or differences. They also may be used to identify the underlying strengths of the existing cultures so leaders can preserve, reinforce, and leverage them for competitive advantage.

Finally, diagnostics can be used to measure results and reassess cultural fit over time. Starting with a baseline at the beginning of a merger, diagnostics can be deployed in multiple iterations to understand if cultural reinforcement mechanisms are successfully bringing the two cultures into alignment. The results of the assessment should be used to develop short- and long-term integration action plans and prioritize the focus for ongoing cultural implementation.

Year one and beyond: Sustaining the new culture

Sustaining a changed or new company culture is not a one-time project that ends at Day 100; it requires ongoing action plan execution and reinforcement during year one and beyond. Based on the results of the cultural diagnostic assessment, the integration team should develop short- and long-term plans to drive alignment to the combined company's end-state vision. Effective culture plans typically include quick-win projects as well as long-term strategies that provide the infrastructure and processes to drive and sustain the desired behaviors. Similarly, effective culture plans are targeted. Tools like CulturePath™ allow leaders to identify which divergent groups should be focused on and which aligned groups can serve as role models. Like any major initiative, these culture plans require strong and visible executive sponsorship.

Implementing high-impact quick wins often signals that cultural integration is a business priority, helps address key issues quickly, and provides momentum for the transition. Efforts could include adopting revised cultural symbols such as logos, badges, and uniforms; redesigning the workspace; or migrating to a common e-mail format. Longer-term cultural interventions start with executive leadership and focus on

systematic communications and actions to reinforce key behaviors of the desired culture. To illustrate this point, if a culture of courage is desired, leaders from both companies should consider modeling this behavior by demonstrating courage throughout the course of the deal. The degree to which leaders from the acquired company demonstrate courage and maintain focus on business as usual will go a long way towards calming target employees' nerves. Similarly, if the combined company does not perform financially as expected after deal close, how leaders respond may prove to be a watershed moment for the new company.

At the employee level, it is important to create goals, metrics, and performance management processes to incentivize desired behaviors that may help sustain the cultural change over time. Systemic reinforcements can be ingrained in the company's talent infrastructure, including hiring strategies, performance management system, training programs, and compensation and benefits schemes. For instance, if a culture of ownership and accountability is desired, then it is important to build these qualities into the competencies required for recognition and promotion. Consider, too, a company that is focused on promoting product cross-selling in the new entity's first quarter to signal strength to investors. A sales incentive plan can be structured to reward teams that collaborate to close deals, rather than reward individuals with commissions that could increase competition.

By embedding cultural reinforcements into enterprise-wide value events and processes, it is possible to influence a greater number of employees in a meaningful way and reinforce desired behaviors across countries, sites, and functions.

Use culture to take integration to the next level

Companies should skillfully manage the cultural aspects of global and regional M&A to meet immediate commitments to the investment community and build a sustainable foundation for the future. By addressing culture early in the deal lifecycle, consolidating companies have a greater chance of realizing the transaction's anticipated value.

Early alignment with the desired future-state cultural vision and integration strategy, and smooth translation of the vision into action plans can better enable companies to safeguard the short- and long-term value of their deals. The ultimate goal is for a new company to emerge from the integration process with a high-performing, sustainable culture with employees who are committed to growing and succeeding against the organization's strategic priorities. This is

no easy task, especially in the context of a global deal. However, it is something that leaders should and need to do—and do well—to deliver on promised deal value.



End Notes

1. Sackmann SA, 2010. "Culture and performance." In: Ashkanasy N, Wilderon C and Peterson M (eds) Handbook of Organizational Culture and Climate. Thousand Oaks, CA: SAGE, 196.
2. "Dangerous liaisons; Mergers and acquisitions: the integration game," Hay Group, 2007.
3. "Take Your Corporate Culture off Cruise Control," Deloitte, 2016.
4. Heskett, James. The Culture Cycle: How to Shape the Unseen Force That Transforms Performance. Chapter 10. Upper Saddle River, NJ: FT Press, 2012
5. CulturePath™ website, Deloitte, 2016. <http://www.deloitte.com/culturepath>

Using integration to catalyze HR transformation

By Tom Joseph, Steve Schultz and Matt Usdin

Merger and acquisition (M&A) transactions often place significant stress on an organization and its employees. Recurring themes typically include resource shortages, competing priorities, an inability to meet deadlines... the list goes on. The idea of adding human resources (HR) transformation to post-deal integration activities may be daunting but its omission may prevent the new organization from realizing its full potential.

HR transformation can quickly become an imperative during M&A. Whether the transaction is a small bolt-on or a large “merger of equals” the number of employees served by HR will increase. The newly combined population, coupled with HR’s M&A-related synergy expectations, often makes transformation a necessity. In the simplest terms, HR will be expected to *do more while also spending less*. Yet, with the proper mix of planning, process, and execution, HR leadership can harness the integration’s momentum to transform the function, optimize HR’s service delivery model, and better support the business and its employees.

Justifying transformation

At first glance, there appears to be a number of reasons to avoid a sweeping HR transformation on top of an already challenging integration. However, many integration activities can be a launch pad for transformation efforts, as long as each activity is viewed through a transformative lens.

Identifying weakness

While it’s true that completing the laundry list of integration activities may strain time and resources, integration also provides opportunities to revisit HR programs and processes that may not be efficient.

Integration typically includes a detailed analysis of current-state HR activities at both legacy organizations and, as a result, sheds light on areas of inefficiency. HR leaders can capitalize on this period of “self-reflection” and conduct a non-biased inventory of what’s working (and what’s not).

Harmonizing versus optimizing

A common goal of integration is to harmonize HR programs and processes across the legacy organizations. In many cases, the focus is on maintaining business continuity throughout the transaction and achieving the “new normal” as quickly as possible. However, when HR leaders undertake transformation as part of integration, they can expand the focus beyond harmonization to optimization. For example, a typical integration may include consolidating legacy HR shared services centers. A transformative integration, on the other hand, may identify opportunities to more efficiently deliver HR services, including technology-enabled improvements and process redesign.

Funding transformation

Integration provides a number of funding opportunities for selling, general and administrative (SG&A) functions. Given that integration requires significant investments in contract resources, consulting spend, and system upgrades; executives, therefore, typically carve out budgets specifically for the integration. This can present an opportunity for HR leaders to request funding for transformation activities, especially if the transformation is aligned with potential synergies. By classifying transformation activities as a one-time integration expense, HR can concurrently fold the costs into the integration budget and potentially benefit from a large return on this initial investment.



Transformation opportunity: HR service delivery

When identifying M&A-related HR transformation opportunities, it is important to consider changes that create business value. An initial focus area should be the overarching HR service delivery model—how HR serves its business customers. The service delivery model incorporates many of HR's most critical (and costly) activities. An optimized model can not only improve HR's support of the business, it can also improve the effectiveness of both internal and external resources.

A Chief Human Resources Officer (CHRO), supported by his or her leadership team, may consider assessing the end-to-end processes within the HR function. This includes a functional self-assessment, as well as candid conversations with customers. As HR service gaps are identified, the team can formulate a plan to address issues and better utilize HR resources. Oftentimes, leaders decide to either expand the existing service delivery model or engage in a full redesign of HR processes. High-impact HR service delivery transformation opportunities may include:

- **HR business partner (HRBP) optimization**—How do HRBPs add strategic value to the business? Many organizations provide HRBP services reactively and do not strategically align them to the business. Integration offers the opportunity to review the HRBP talent pool, the level of service provided by each individual (and as a whole), and ways to more proactively and strategically partner with customers in the future.
- **Talent management**—Do the talent strategies of the two entities align? Rather than force alignment to an existing strategy, integration is a good opportunity to review and improve performance management, career pathing and leadership development, topics that are generally sensitive and often not strategically aligned to business outcomes in large organizations.

- **HR shared services efficiencies**—How do shared services support the HR service delivery model? Even mature organizations can find ways to gain efficiencies through simplified and standardized processes and policies. Additionally, organizations can segment transactional HR activities into low-cost areas, realizing savings from labor arbitrage.
- **Technology**—Do current HR information systems (HRIS) enable efficient HR services? Advancements in HRIS may help the HR function move beyond master data management and payroll processing into a new realm of employee and manager self-service. New systems may allow HR to achieve technology-enabled efficiencies, especially since organizations often are faced with both an expanded employee base and budget limitations.
- **Controls & accountability**—Who really owns the HR function? By realigning budget ownership and reporting relationships, HR leaders may more effectively drive activity across global regions. Additionally, clearly-defined reporting relationships (both direct and indirect) can improve leadership's line-of-sight across the function and verify that the global organization is operating in unison.

Transformation opportunity: HR process & data management

Often/Typically one of the most challenging post-Day 1 initiatives is integrating and consolidating business processes, systems, and data. These activities are integral to an organization's ability to function as a single enterprise. One of the initial activities in any system consolidation is to define the effort—what does consolidating processes and data mean to the organization? How will it impact existing or planned initiatives? Once leaders define the consolidation effort, they should identify and align key stakeholders and set expectations for the scope of consolidation activities to support Day 1 and beyond.

Process, system, and data consolidation challenges typically center on project size, complexity, and scope. Making service delivery model and technology selection decisions early will drive other consolidation decisions, such as business process and system design. Some activities critical to the success of process, system, and data consolidation are:

- **Data clean-up**—Thorough clean-up efforts can increase data accuracy prior to system consolidation. As part of the HR functional transformation, there may also be opportunities to improve existing data tracking and reporting processes.
- **Data standardization**—HR data should be business-driven, standardized, and aligned with other aspects of the budgeting process, financial planning, and position management.
- **Single source of truth**—Building a solid foundation of consolidated company data will be important to sustain the new organization and its future initiatives. Storing data in one system may reduce the amount of required future maintenance and enable better data management, reporting, and business performance monitoring.
- **Business process design**—The new organization's business processes will have a direct impact on forms, workflow, and security, and should be prioritized and aligned with the scope of the system consolidation.

Transformation opportunity: HR technology

Consolidating and integrating HR technology with other operational systems during an M&A transaction is a large and complex process. By considering technology consolidations in tandem with service delivery, an HR organization may better achieve anticipated deal-related efficiencies and synergies. Executives should select technology that aligns with and supports strategic objectives such as talent strategies and other business-driven requirements. Another key consideration is the time and cost to deploy a consolidated, integrated HR system. The longer an organization takes to consolidate, the higher the cost will be to support multiple systems and business processes. Common questions during a technology assessment include:

- Can an existing investment be leveraged for the new organization? Or does the organization need to go through a vendor selection process for a new technology investment—one that can support the consolidated entity's size and complexity, including possible expansion into new regions or rapidly-changing markets?
- Do the skill sets and experience needed to implement a system consolidation reside in house? How about long-term operational support?
- Does the technology have global coverage and scale to support current and future business requirements?
- Is the technology flexible enough to support legal, union, or regulatory requirements if the delivered functionality cannot accommodate them? Will the consolidated entity be able to support ongoing compliance and regulatory updates?

Managing transformative change

Getting senior executives to acknowledge and align behind the need for an HR transformation can be challenging, given the other issues and priorities associated with M&A-driven integration. Some common hurdles include:

- **Competing business priorities**—While the HR team may recognize the importance of investing in post-close HR transformation, other organizational initiatives may also require funding. HR leadership should prepare a business case for senior executives detailing the importance of HR transformation and its impact on the entire enterprise.
- **Post-Day 1 uncertainty**—M&A often generates a lot of uncertainty: Employees wonder if they will have a new job, a new manager, a new office, etc. HR, in tandem with Communications, is responsible for managing this uncertainty. Typically, organizations focus on pre-close communications; however, post-close communications should be a priority, as well. Creating a transparent, two-way communications process will likely help ease post-Day 1 employee anxiety and aid in retaining talent. Furthermore, a clear governance and decision-making model should be established to reduce role ambiguity among leaders.
- **Departmental roles and responsibilities**—Integration is an important time for all functions to work together. While HR typically leads people-related change management, communications, and organizational design, it requires significant input from all areas of the business. Engaging with functional leaders early in the M&A lifecycle will give HR an opportunity to understand their needs and consider their input on how employees should be managed pre- and post-close.
- **Employee mapping**—Combining two organizations requires comparing HR processes and policies and determining

new strategies for the combined entity. Differing salary ranges, titles, and benefits can be a hot-button issue. A good approach to successfully execute employee mapping is to research and evaluate industry standards and leading practices. Retaining both entities' current compensation structures until the new year may provide enough time to complete necessary due diligence.

- **Endless "to-do" list**—Completing myriad M&A-related tasks may feel overwhelming to HR staff members, especially since they must do so while also conducting regular business activities. To help ease the integration process, staff should first tackle the tasks that align with the new business strategy and have the most significant impact on employees across the entire organization.
- **Returning to business as usual**—Once a deal closes, many employees will no longer view the integration as a critical focus area and return their attention to business as usual. While deal close represents the legal transfer of ownership, integration is not complete. HR leaders should charge their team with carrying out post-close responsibilities for both HR functional changes and enterprise-wide initiatives. Designating an integration leader to handle pre- and post-close responsibilities can help keep all processes moving forward.

As a company's primary liaison with current and new employees, HR leaders and team members may feel they have more than enough responsibilities on their plate during an M&A transaction. However, with the proper mix of planning, process, and execution, HR leadership can harness the integration's momentum to transform the function, optimize HR's service delivery model, and better support the new business and its employees.

M&A-driven organization design

Seven practices to help lock-in deal value

By Davi Bryan, Tom Joseph, Stephen Redwood and Matt Usdin

Stakeholders and Wall Street typically greet the announcement of an M&A transaction with excitement and energy around the creation of a new business entity and the growth opportunities it provides. However, once the deal is finalized and the dust settles, management usually is left with the highly complex task of implementing the numerous operating model and organization changes required to realize expected deal value. Often this process begins by getting “down and dirty” in organization design, where many companies find they can attain substantial accretive deal value through human resources (HR) synergies.

So how does a company lock in deal value? Seven leading practices have been shown to consistently drive value from post-Day 1 organization design. These activities are applicable in virtually all industries and deal types, from traditional mergers to small integrations to full-scale separations.

The following seven leading practices provide focus for the HR organization design process and emphasize critical components for each phase – strategic planning, design, and implementation – that may help the new organization avoid common organization design pitfalls and realize projected deal value.

Phase 1: Set the stage with strategic planning

Leading practice #1: Agree on what you can afford

Companies that begin post-deal HR organization design by clarifying integration synergies and people-cost assumptions help set the stage for an effective end-state transformation. Establishing cost envelope targets early in the design process helps increase the likelihood that the transaction's financial goals will be met and provides a basis for comparison with external leading practices as the organization design progresses.

Identifying clear cost targets also can help leadership understand and align on what part they will need to play in meeting those targets. This early clarity may drive faster decision-making and provide greater transparency to the investor community.

Our experience and research from the Deloitte Global Benchmarking Center suggests that these cost targets should be a “stretch” and based on the organization's operational needs, leadership's aspirations, and commitments to shareholders, as set in the deal valuation. Starting with low targets tends to produce even lower outcomes.

Example of stretch thinking

The CEO of a major consumer products company sought broad advice on “any and all” leading practices to improve the company's enterprise and functional structures as it integrated new businesses. He wanted to create a climate of fresh thinking and big ideas at the start of the organization design process, before everyone focused on the nuts and bolts of integration. This approach helped the firm infuse the design process with innovative ideas to drive greater deal value, ultimately resulting in a nearly \$2 billion increase in market capitalization.

Leading practice #2: Evaluate transition options

We see many companies engaged in M&A that are faced with making an early organization design decision: Should they move quickly and implement a “big bang” integration, take a more measured approach to the transition, or opt to keep the new business separate? While a range of reasons may influence the selection, our experience shows that, in general, slow transitions that may seem to be more manageable and humane tend to result in design decision backtracking, talent attrition, and failure to meet cost-savings goals. Maintaining separate operations, meanwhile, may still require integrating some duplicative corporate functions, such as HR, legal, and marketing.

Integrating a new business may provide an opportunity to establish or expand the use of shared services, outsourcing, and centers of excellence (CoEs). Typically, these options are neither easy nor quick to implement – the process may be complicated by location choices and technology and data issues. The likelihood of integration complexity makes early organization design choices essential; procrastinating may cause delays that increase transition expenses down the line.

Leading practice #3: Determine which positions to transition, and when

Organization design success depends greatly on early identification of qualified people to lead the effort. Typically, companies begin by prioritizing which high-value positions to transition, and when to do so. Retaining key individuals and motivating them to champion the remainder of the integration process can provide highly visible, quick wins. Once these individuals are transitioned, it is important to spend the necessary time to clarify the organization’s end-state strategy, make sure everyone is aligned, and confirm that the integration plan is properly set up, sequenced, and resourced.

Case study

Transaction: A global consumer products company with over \$7 billion in annual revenue split into two, equally sized, standalone legal entities.

Issue: In this full-scale separation, both future-state leadership teams had a unique opportunity to develop an entirely new go-to-market strategy. However, the executives needed a clear plan to successfully transition existing resources to the new business models.

Impact: Determining early which functions were in and out of scope created a straightforward path to begin the design process. For example, by deeming all manufacturing positions as out of scope, management was able to focus on how best to position the marketing and product development teams at the helm of the new organizations while transitioning other functions into a business partner support model. Initial cost envelopes provided a mechanism to achieve the valuation targets and early leadership selection created internal champions for these changes.



Phase 2: Build a solid foundation with thoughtful design

Leading practice #4: Keep it efficient

A post-M&A operating model should match the future-state organization with its intended market strategy. An effective operating model will show the relationships between an integrated company's different parts; how the market channels will operate; enterprise-wide versus department-level activities and functions; and the boundaries between organizational entities. Leveraging the operating model early in the HR design process can help mitigate role redundancy and provide a framework to assess the cost or benefit of moving certain functions to new service delivery models, such as shared services or a CoE.

The operating model should be the basis for asking challenging questions to test how the new organization will operate and how effective it will be in meeting strategic goals. Pertinent questions might include: Should we drop the long tail of unprofitable customers? Reduce or redeploy certain products or services? Move to a single cross-selling sales force model? Who owns specific profit and loss (P&L) items? Who gets the call when something isn't performing as planned? Once the leadership team has developed the operating model and answered important questions, the actual organization design can move ahead with a clear idea of how what works on paper will need to work in practice.

Leading practice #5: Get ahead of the transition

Time is of the essence in M&A transaction activities and post-deal organization design is no exception. A proactive approach enables management to make early decisions about the future-state organization structure and fully align strategy with design. The HR team should begin the design process prior to Day 1 and use a clean slate. The goal is for management to match talent to roles, rather than roles to talent. This produces an efficient and effective process that is able to optimize value creation and minimize design drift.

Case study

Transaction: A global provider of products and solutions to the food, energy, healthcare, industrial and hospitality markets set out to reshape its go-to-market strategy through two acquisitions.

Issue: With an ambitious goal to increase its presence in new high-growth markets, the firm's management faced the daunting task of simultaneously implementing a new strategy, shifting the current operating model to fit the new plan, and integrating two new businesses.

Impact: Comprehensive discussions gave leadership clarity on a preferred operation design and implementation plan to achieve the company's goal of creating a unified, global firm capable of adapting to a changing marketplace. Design and operating principles promoted executive alignment and addressed challenges such as determining whether product/solution leaders or country leaders would own the sales force; whether sales forces from different businesses could cross-sell technical solutions; and how enterprise business owners and local markets would share responsibility for planning and performance.



Phase 3: Leverage leaders and rules to help maximize return on organization design

Leading practice #6: Solidify leadership early

Early selection and announcement of the new company's senior leadership can provide a set of organization design champions who are aligned behind the proposed structure, committed to seeing the design process through to completion, and have the authority needed to institute structural change that can help realize deal value sooner.

Leading practice #7: Establish the rules

A good way to avoid getting bogged down in person-by-person negotiations is to develop and apply clear and replicable staff retention and performance policies. Uniform employee selection policies can pave the way for timely completion of even the most complex organization design project. Finally, it is important that HR staff members consider the potential impact of survivor syndrome. How the company treats departing employees affects the morale of those who remain.

Case study

Transaction: A global multinational information technology company publicly announced the separation of its core business units, which led to the creation of two new future-state companies.

Issue: This highly complex separation included the disposition of more than 280,000 employees. In addition, management needed a full future-state design completed within a six-month timeframe.

Impact: Creating an organization design separation CoE to support HR business partners facilitated the successful transition of over 250,000 employees across more than 100 countries and aligned to more than 100 legal entities. The creation of clear guidelines and strong leadership teams to champion the change resulted in an on-time transition of all resources by the go-live date.

Putting practices into action

These seven leading practices can provide a roadmap for effective HR organization design in virtually any M&A environment. To make sure that the design team fully leverages these practices, senior executives should establish project parameters to assist team members throughout the design process. Suggested guidance includes:

- Embedding key decision-making milestones within the project timeline;
- Seeking business leaders' input during the planning phase rather than jumping straight into design;
- Remembering that HR organization design is a process. Team members should specify objectives and appropriate effectiveness measures for all project stages – planning, design, and execution – for Day 1 and beyond.

Incorporating leading practices into organization design planning and implementation can help corporate and HR leaders find the right balance between locking in short-term deal value and positioning the future-state organization for long-term success.



Finance integration

Fine-tuning reporting capabilities for long-term M&A value

By Will Tarry and Mike Willkin

Mergers and acquisitions (M&A) continue to be a preferred growth strategy for companies stymied by sluggish organic expansion. Often lost in the optimistic, pre-deal discussions of synergy plans and accretive earnings, however, is the ability of company leaders to concurrently deliver projected short-term synergies and position the newly combined company for long-term success. Early financial gains from headcount reductions, procurement advantages, and information technology (IT) consolidations can be negated later on if rationalization decisions are not made with an eye towards the future. For example, acquirers rushing to integrate operations often aggressively reduce employee headcount, only to incur significant training and staff development costs because early-stage staffing needs and projections often fail to account for how the new organization will operate and what the combined baseline financial results will look like.

A tightly formed plan for accurate, integrated financial reporting post-close can provide the foundation for data and cross-organizational visibility that executives need to comply with post-transaction external reporting requirements and support long-term synergy goals. The acquiring company's Chief Financial Officer (CFO) and the Finance team typically lead financial reporting integration, working closely with the M&A deal team. The combined reporting capabilities should fulfill standard M&A requirements – enabling external reporting continuity, closing the books in a timely manner to meet SEC and investor expectations, and others – For others, particularly organizations lacking a

global enterprise resource planning (ERP) system, more nuanced requirements may be overlooked until too late in the game: combined-company management reporting by business line, product, and service offering; and interactions with human resources (HR), payroll, procurement, and travel and expense (T&E) systems.

Priority One: Consolidating external reporting

When planning the integration process, a public company's CFO and Finance team should first determine the acquisition's potential effect on its external reporting process.

- Does the acquired organization fit neatly within an existing reporting segment of the legacy business? If so, changes can be minimized; however, proper focus should be maintained during the initial post-deal-close consolidation.
- Will the acquired organization span multiple externally reported segments of the company? If this is the case, mapping and aligning the acquisition's business financial systems for seamless external reporting takes on additional importance.
- Is the acquisition significant and heterogeneous enough to spur reorganization of the legacy business and its management reporting lines? If so, leadership should decide whether or not a restatement of past segment-level financials is acceptable. If not, the integration team should be aware of leadership's decision while designing the updated reporting structure.

The chosen reporting method for the first consolidation after deal close depends, in large part, on the answers to the above questions. Typically, it is possible to maintain the acquired organization's consolidation system and processes as a sub-consolidation, and then route data to the parent company's consolidation system via a high-level mapping process and technology solution. This approach provides ample time for the integration team to work towards a more comprehensive financial systems integration, including general ledgers, while fulfilling short-term reporting requirements. Note, however, that achieving potential post-deal synergies may dissuade management from choosing this approach, as maintaining redundant systems and processes utilizes valuable resources and may hinder the deal's targeted synergies if aggressive timelines have been established.

We satisfied external reporting requirements... now what?

After designing, testing, and executing on the first post-deal-close reporting period, the Finance integration team should shift its focus to addressing the following questions:

- How will the company's business and functional leaders receive the information they need to make solid, fact-based decisions in line with the new organization's goals?
- What are the timelines for reducing or eliminating the use of the acquired company's systems, particularly general ledger, payroll, T&E, and others?
- How will finance integration affect company support functions such as shared services, transaction processing, business finance teams, etc., and how can that impact be mitigated?

Viewed together, these considerations may appear overwhelming; however, a well-managed reporting integration effort can prepare internal stakeholders for the changes to come and help bridge typical post-Day 1 information gaps. Indeed, effective reporting integration planning and execution may improve stakeholder satisfaction and accelerate synergy realization.

Company business leaders will want prompt and unfettered access to financial data related to the acquired organization. Meeting each stakeholder's expectations will require that the Finance team understands what information they need, when they need it, and where they want to go to access and analyze it – all of which should be determined and documented as part of designing, mapping, and implementing the end-state reporting solution. Companies with an established ERP system and a well-defined set of financial feeder systems will likely be able to streamline this process, as the "to-be" is typically aligned with the current state for the acquiring organization.

For those companies without a true ERP, requirements gathering and documentation may be a more challenging exercise:

- Does the acquisition have multiple, existing data warehouses and business intelligence tools to analyze information?
- Do these systems and tools use a consistent codeblock structure? What elements are constant and critical across each platform?
- Does each entity and geographic market transact on the same general ledger platform?

Focusing on the end state and maintaining a well-defined master data program may help to mitigate some of these challenges.



Pulling it all together

Once Finance has defined internal stakeholders' individual and collective reporting requirements (Figure 1), the process of aligning the acquired organization within the new reporting structure can begin. It is important that the integration team employs strong project management throughout this process and communicates regularly with all stakeholders.

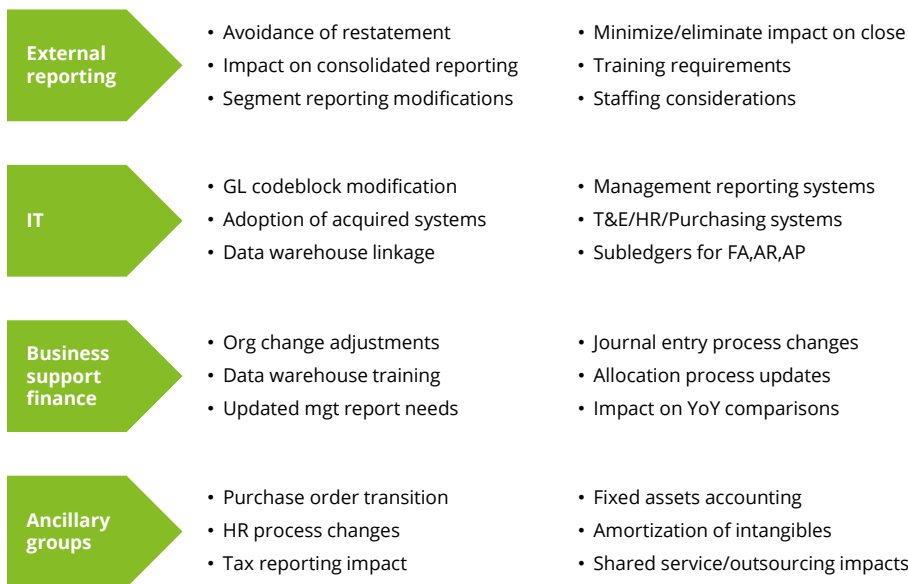
Targeted synergies may drive (or force) many of the integration timelines. However, project leaders should be aware that synergies can be lost if the integration effort and transition are rushed and the company incurs significant costs on issue resolution and cleanup.

The documented stakeholder requirements should guide the integration's design and execution, and planning needs to take into account the integration's impact on various parts of the organization. For example, how will the HR team be affected? Will shifting acquired employees to new legal entities and HRIS systems drive significant change to the master data within the ERP?

The end-state goal is to establish an inclusive, responsive integration program that meets near-term reporting requirements and longer-term synergy targets. The CFO and Finance organization are uniquely positioned to drive and support the visibility and transparency that will promote integration success – with the reporting requirements and associated execution plan clearly defined as an underpinning.



Figure 1: Stakeholders' financial reporting requirements



Tax considerations during M&A integration

Shaping the new organization

By Pam Beckey, Robert Call, Chris Houser and Steve Tarrant

Tax executives should lobby for a seat at the table with their C-suite counterparts during M&A integration planning, for they can offer important insights and recommendations to accomplish strategic tax goals associated with the transaction. Their involvement should begin early, extend through the integration lifecycle, and address key business decisions, synergy prioritization, legal entity readiness, and countdown to Day 1.

First 100 days sprint

Prior to and after the announcement of an M&A transaction, tax executives can play a valuable role in helping senior management determine synergies, identify pre- and after-tax benefits, and improve business processes. To be effective, tax department leadership should consider focusing on two things: the clear-cut business tasks that need to be addressed and the fuzzier (but equally real) human ramifications of the transaction. This is easier said than done, as tax executives must also manage their day-to-day responsibilities and plan for the first combined financial statements.

The first area, M&A-related tax business tasks, involves checklists, memos, work plans, and other tax technical details. The second, taking care of people, requires managing the uncertainty that inevitably ensues when an M&A transaction is announced—employees at all levels likely are anxious about their future and their new or changing responsibilities.

Although every M&A transaction is different, the focus areas for tax executives usually fall into three categories:

1. Deal-related tax technical aspects
2. Tax department operational needs; and
3. Business process changes.

Many tax executives and department professionals find managing a transaction's tax technical aspects to be particularly interesting and rewarding. Issues may include determining the deductibility of transaction costs, addressing executive compensation, and strategically placing acquisition debt to maximize the tax benefit of the future interest expense. The tax department can grapple with these and other tax technical topics in an ad hoc manner, outside of the context of the overall business transformation.

However, tax technical issues are just the beginning of the process. A tax department's broader operational needs also have to be addressed. Issues include changes to the ASC 740, Accounting for Income Taxes, compliance needs (including data, process, and technologies), completion of necessary stub-period tax returns, tax department design, tax authority audit management, and information technology needs.

Managing operational category issues represents the minimum table stakes for a company's post-transaction survival. Overlooking an issue in the tax technical category—perhaps failing to place the acquisition debt in the optimal subsidiary—will not prevent the sun from rising tomorrow. However, overlooking an issue in the second category—for example, a

botched tax provision in the first quarter after the deal closes—could have immediate and severe consequences for the company and its tax department members. In our experience, many tax executives focus exclusively on tax technical issues in the beginning, but quickly divert their attention to tax department operations when they realize the potential consequences and visibility of failure in this area.

The third category involves business process changes that are inherent to strategic deals. In an M&A transaction, the acquiring company usually does not buy the target just to hold on to it passively and collect dividends. Someone at the executive level determined that the two companies would be worth more combined than as separate entities. This implies the existence of certain synergies, mutual support capabilities, and complementary traits that should be identified and assessed for their potential tax impacts.

Shaping the new organization

M&A transactions typically follow a logical rhythm and sequence. With proper planning, tax departments can use these transactions to advance certain strategic initiatives that may have been on hold. During the months immediately following a deal's announcement, it will be crucial to know what the operational and financial groups will be expecting from the tax executive — and what they might not think to ask, but should.

Tax executives likely will, and should, be called upon to contribute to the most important initiatives shaping the new organization. It's critical, then, that the executives and their staff proactively address the issues, challenges, and opportunities that an M&A deal may bring. This may require them to venture outside their comfort zone of dealing with day-to-day, department-specific tasks.

Keep tabs on changing business processes

It stands to reason that existing, underlying business processes usually must be changed to achieve post-transaction synergies. The tax department can play an important role in this transformation, particularly by helping to reduce the tax cost of the process changes. Yet tax executives commonly underestimate the speed and scale of business process changes. As a result, these changes often are implemented without considering the tax consequences, sometimes with devastating impact to the business.

Consider this hypothetical example: As part of an M&A transaction, two of three facilities will be closed; the third will stay open and add employees. The company's operations group may be moving forward on business decisions without taking into account possible tax ramifications or opportunities. The tax executive could offer ways that the department could add value. For instance, if the operations group was trying to decide which of two facilities to keep open, the tax department might be able to quantify the relative tax burdens of the two locations to support deliberations. As soon as the

choice was made, but before staff increases were announced, the tax department could help negotiate certain incentives or assess overall tax impacts associated with strategic decisions. Furthermore, the tax executive could advise the operations group on how the proposed facility shutdowns might impact the company's global transfer and advance pricing agreements.

This situation illustrates why tax executives need to make sure that they have a seat at the M&A planning table alongside their peers as early as possible — certainly before the transaction closes — if such process synergies are crucial to deal metrics. Strategic companies begin to plan for and implement business process changes immediately, and unless tax executives are aware of them from the start, they may not be able to add value.

Tax executives should expect that keeping tabs on M&A-related business process changes while simultaneously dealing with tax technical issues and tax department operational requirements may be a challenge. Many executives are tempted to just leap into the fray, working later and later each night to handle the multitude of responsibilities. We have frequently seen this approach fail. At a minimum, the executive will lose the opportunity to thoughtfully weigh the competing merits of proposed business process change options. More importantly, the executive may struggle with prioritizing and executing key tasks. This can make for a very long and uneasy first few months post-transaction with the executive worrying that something important was missed.

Our experience suggests that rather than jump in feet first, tax executives should take time at the outset of the deal lifecycle to develop a detailed work plan. This will require extra time and effort at a stage when time is a very precious commodity; however, every hour spent planning in advance can eliminate numerous hours of rework or wasted effort later.

A detailed, actionable work plan should cover all important aspects of tax technical,

tax department operations, and business process changes. This disciplined approach will prioritize the department's efforts over the coming months and highlight, early on, any tasks that it does not have the proper resources to address. This way, the executive can obtain external assistance, such as temporary staff, as needed. Indeed, since overstuffed tax departments are a rarity today, calling for external assistance for the heavy post-transaction workload may be critical to the tax staff's well-being.

Take care of department employees

As previously noted, tax department employees may be more concerned about the outcome of the transaction than the executive. Because they have much less access to information, they may assume that the executive is withholding bad news; for example, that a move to the other company's location is imminent, that a top lieutenant may be demoted below someone from the other company, or that there might be wholesale layoffs. This stress is often amplified by headhunters calling department staff and, sometimes, spreading rumors of disaster.

Once a deal is announced, most companies have their integration teams quickly running at top speed in order to expedite the realization of announced and anticipated synergies. Accordingly, a tax executive's first step is to promptly identify key integration team members and present to them the business case for tax department participation. Step two for the executive is to identify tax resources that can be fully dedicated to the integration effort. Once it is underway, it is sink-or-swim. Therefore, the executive's third step is to invest department resources in the integration program. One cautionary note: Meeting the goal of proactive participation may be impaired if the individuals assigned to the integration team still have to spend considerable time on the tax provision or other operational support duties. What to do? The executive should provide tax department employees with as much information as possible, as soon as possible, in an open and frank manner.

Legal entity rationalization

One potential M&A-related issue is combining and simplifying two legal entity structures. These complex structures tend to drive up costs enterprise-wide, so it's little wonder that cost reduction is perhaps the most common driver of legal entity simplification efforts. But to achieve these cost savings, a company should embark upon an entity rationalization project, which can cost considerable time and money.

Company leadership will often request an estimate of potential cost savings before authorizing legal entity simplification. In the past, many companies have relied on a cost-savings threshold before moving forward on each potential simplification step. However, such high-level estimates are often poor predictors of actual results. Below is a more rigorous method for estimating the cost savings that are possible with entity reduction efforts. With respect to

pre-tax cost savings, most companies that conduct a legal entity simplification effort in conjunction with or shortly after a major transaction can potentially benefit in some or all of the following areas:

Legal Entity Rationalization Savings Opportunities

Business Unit	Summary of Potential Savings
Legal and regulatory	Reduction in fees and costs relating to redundant minimum taxes, licensing, permitting, registration, registered agent, public notices filing, record maintenance, state legal, tax compliance, and other filings.
Finance and treasury	Reduction in bank account service fees, transaction charges, capital costs associated with minimum deposit requirements, debt covenant compliance, and cash forecasting.
Accounting	Reduction in fees and costs relating to statutory audit, redundant and inefficient shared services resources, monthly/quarterly/annual reporting, intercompany accounting (e.g., streamlining voluminous intercompany journal entries and reconciliations), statutory filings, and IFRS implementation.
Operations	Reduction in costs from duplicative administrative/shared services, misaligned operating model, duplicative insurance policies/premiums, and intercompany accounting. Reduction in lost sales/revenue resulting from artificial barriers to doing business.
Information technology	Reduction in costs relating to general ledger input/coding, system configuration, and incremental system capacity.
Human resources	Reduction in costs relating to administrative and shared services, insurance/premium, vendor rationalization, and redundant compensation and benefits programs. Managing loss of employee mobility.

Other derived potential benefits may include:

- **Risk reduction**—Aligning the legal entities with the company's business model may increase the likelihood of using the correct legal entity for contracting, employment, etc. Having fewer entities may also make it easier to generate accurate separate-company legal entity financial statements, which are necessary to produce correct tax provision amounts.
- **Ease of doing business**—Having fewer legal entities can make it easier for both customers and vendors to do business with the enterprise, especially if any particular customer or vendor must routinely transact with multiple entities within the group.
- **Tax reduction**—Additional legal entities can trap tax losses and other attributes, causing the overall group to have a higher-than-expected tax rate. For example, if the group's third-party debt is at the parent company and the profitable operations are at the subsidiary level, many states will not allow the parent's interest expense to offset the subsidiary's profits, resulting in loss carryforwards at the parent level and full taxation at the subsidiary level.

One danger to estimating cost savings on a per-entity basis is that the amounts can vary so widely as to be meaningless. For example, the annual cost to maintain a dormant US-based entity might be only a few hundred dollars a year. On the other hand, the cost to maintain a duplicative operating entity that does business in a European country might be more than several hundred thousand dollars per year. So, attempts to estimate cost savings based solely on the number of legal entities eliminated usually end in frustration. The critical dimensions of cost savings are:

- **Entity location**—US-based entities tend to have lower costs to maintain compared with other jurisdictions, which may have statutory audit and other entity-based requirements.
- **Entity activity**—Dormant entities can be easier to eliminate than operating entities, but dormant entities typically have a trivial cost to maintain compared to operating entities.
- **Simplification level**—Greater cost savings are possible when an eliminated entity's activities are completely absorbed into another entity's routine activities, rather than continuing to exist separately in the surviving entity. For example, larger cost savings are possible when an eliminated entity's bank accounts are closed, rather than simply being renamed with the surviving entity's name.
- **Prior integrations/restructurings**—Many complex legal entity charts are the result of prior M&A transactions. To the extent that the prior integration work was successful at achieving synergies (for example, the enterprise previously moved to a single ERP platform), there generally will be less cost saving available.

Entity simplification projects can yield substantial benefits, but they also can involve substantial costs. Before embarking on such an ambitious project, it is prudent to estimate not only the cost, but the likelihood of financial success, as well. The data, tools, and processes listed above can support enterprises as they attempt to quantify potential savings from an entity simplification project. As the project moves forward, tax executives should consider setting up a rigorous tracking process to identify and capture identified savings. Remember, the goal is not the reduction of entities per se, but the elimination of excess cost associated with the entities that are eliminated.

Factors for effective integration

Certain factors are important to achieve effective M&A integration:

- Having executive leadership support;
- Involving management from both the acquirer and target;
- Developing a detailed project plan that optimizes internal and external resources;
- Assigning a dedicated integration team; and
- Communicating transparently and consistently with employees.

Our experience suggests that companies add another factor to this list: Including the tax department among the functional groups participating in strategic decision-making around post-deal integration. Active tax department involvement across the integration lifecycle may significantly impact and improve overall synergy realization.

Eight keys to a successful treasury integration

By Chi Yun Lee, Carina Ruiz Singh and Gaurav Sharma

Treasury's evolving role in M&A

Traditionally, the Treasury function's main responsibilities have revolved around protecting a company's liquid assets and helping Finance perform its core functions effectively. In recent years, however, these responsibilities have been evolving and expanding. C-suite executives expect today's Treasury organization to serve as a strategic advisor to Finance, the Chief Financial Officer (CFO), and the overall business. Now more than ever, Treasury executives and professionals should stay in front of rapidly shifting business requirements to support growth, company liquidity, financial risk management, and marketplace expectations for performance.

Included in Treasury's evolving role is providing strategic support for M&A transactions, especially post-deal integration. This support can be extensive and complex. For example, an acquiring company likely will be taking on debt to finance the deal, raising equity, changing its working capital requirements, and adding liquidity risk that the Treasury team will need to manage going forward.

This is in addition to new regional and global footprints that will likely require adjustments to funding models, cash concentration pools, and an increased focus on cash visibility to support the newly combined businesses.

There are eight key ways that Treasury can solidify its role as a strategic advisor and showcase its value during M&A integration:

1. Take the lead on overall deal financing and debt management
2. Collaborate with external groups, including banks, vendors, and outside consultants
3. Collaborate with internal groups such as Tax, Legal, IT, and the broader Finance organization
4. Prepare treasury systems for Day 1 readiness and beyond
5. Prepare for potential regulatory changes
6. Maintain and improve core treasury operations throughout the integration
7. Advise on integration management
8. Plan for post-Day 1 organization optimization

1. Take the lead on deal financing and debt

In the preliminary stages of an M&A transaction, Treasury is often asked to work with the CFO and other stakeholders to assess and identify a preferred financing structure for the deal. This activity places Treasury in a critical position to later enable an effective post-deal integration.

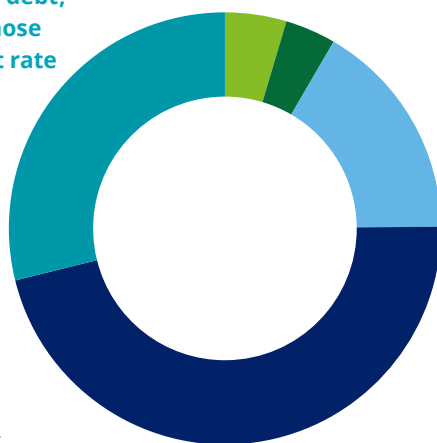
Low interest rates have made debt considerably cheaper in recent years, driving significant and sustained M&A activity. Figure 1 shows the importance of readily available, cheap debt for companies looking to acquire other firms. Expected interest rate increases have further encouraged M&A, with companies raising \$290 billion in debt to finance acquisitions in 2015 (roughly triple 2014's level).¹

In the current leveraged deal environment, the Treasury function can map out funding mechanisms for a potential acquisition, examining available cash, equity, and debt instruments to create an optimal capital structure. Furthermore, Treasury's involvement in due diligence related to acquiring company debt and risk exposures is critical to meeting the organization's post-acquisition debt obligations and risk profile.

Figure 1: How today's deals are financed

If your company plans to issue debt, how strongly correlated are those plans with a favorable interest rate environment?

Not at all correlated:	4.6%
Somewhat uncorrelated:	3.8%
Neutral	16.5%
Somewhat correlated:	46.3%
Extremely correlated:	28.9%



2015

Deal financing

When mapping out deal financing, Treasury cannot work in a bubble. Effective collaboration is essential to perform financing activities in the most tax-efficient manner. For example, Treasury's capital markets group should work in tandem with Finance, Tax, Legal, and others to outline the timeline of integration activities. This collaboration can provide strategic support to the CFO and help identify the investment capacity needed to fulfill the new company's business and financial strategies.

It is important that Treasury establish early communication with external parties (e.g., banks, institutional investors, credit rating agencies, investment bankers) that are key players in financing processes such as cash forecasting for the combined entity, identifying synergies, and setting post-merger margin expectations. Doing so may avoid potential issues or late adjustments that can arise from misalignment between the company and these outside groups. Additionally, if the acquiring and target companies have different or overlapping financing partners, integration could provide an opportunity to reduce that total.

Typical Day 1 milestones for debt, funds flow, and solvency may include:

- Debt covenant reporting procedures
- Third-party debt/derivatives updates in treasury system
- Journal entries for all Day 1 activities
- Step plan including funds flow and journal entries
- Intercompany loans in treasury system
- Aligned practices for in-house banking, including changes to financing company structures

Debt management

Many of today's acquisitions are heavily leveraged, which may complicate raising funds, managing debt, and maintaining credit ratings. Companies should determine quickly and accurately what their fund flows will look like after integration to facilitate debt discussions. After identifying and helping to secure the financing mix, the Treasury team's focus should shift quickly to debt and covenant management. Early planning (e.g., creating templates to finalize covenant calculations and identifying

team leads) allows executives to control conversations about the company's long-term position. In particular, Treasury organizations should stay in front of discussions about credit rating changes and market perceptions throughout an integration to mitigate third party views that that increase in debt negatively impacts the company.

2. Collaborate with external groups

Third-party service providers can be major contributors to the success of Treasury integration. Engaging third party service providers early provides more time to discuss potential execution paths and enables the Treasury team to leverage the collective knowledge bases of these external groups. Viewing external service providers as part of the company's integration execution team can create a more fluid integration environment and potentially strengthen their commitment to a company's successful integration. Key external providers typically include banks, rating agencies, vendors and Treasury specialist consultants (Figure 2):

Figure 2: External partners' roles in Treasury integrations



3. Collaborate with internal groups

Collaborating with internal stakeholders across Finance, Tax, and Legal can streamline critical integration processes. Integrations tend to go off the rails when teams are siloed – they focus only on milestones and activities that directly impact their work and don't pay adequate attention to interdependent areas and downstream impacts. By communicating early and often, teams can identify potential dependencies and gain buy-in from impacted groups before decisions are made.

Finalizing the new legal entity (LE) structure is a significant area for organization-wide coordination. Treasury should work with both companies' Tax and Legal functions to assess how the LE structure of the acquired company will affect existing processes and policies. For instance, the target company's global footprint, current tax structure, and Treasury operational structure may not fully align with the acquirer's current model. The new LE structure also may generate additional regulatory requirements including cash pool locations, thin-cap rules, and repatriation limitations. From a Treasury

perspective, the LE structure may have the greatest impact on the existing financing companies and in-house banks that either company has. Cash pools will have to be reassessed to legally comply within the new structure, and new bank accounts may be needed to support any future LEs that arise. Furthermore, any changes to the structure (e.g., incorporating other entities) should be closely coordinated with overall treasury systems and data migrations. Examples of internal collaborations that may aid Treasury during M&A integration are:

Internal Group	Sample Activities
Legal	Bank account openings/country requirements, legal entity structure, resolution documents, pooling structures
Tax	Coordination/execution of local funding needs, cash movements, intercompany financing model
Finance/Accounting	AR/AP payment and receipt requirements, working capital alignment, reporting/recording
IT	Go Live coordination, data migration, system issue identification and resolution

4. Prepare treasury systems for Day 1 readiness and beyond

Gaining value from Treasury department technologies requires a comprehensive implementation plan that is aligned with broader strategic initiatives that drive organization value. Treasury Management System (TMS) integration requires carefully assessing considerations that involve dependencies and groups inside and outside Treasury:

- **Strong understanding of overall system architecture:** Overlapping system functions may require system architecture and business decisions aimed at rationalizing data and process capabilities.
- **Data warehousing:** The combined companies likely will need a central data repository to support key treasury system requirements (e.g., cash forecasting). The repository should include data from

Enterprise Resource Planning (ERP) systems, TMSs, and other sources from both companies to aid forecast modeling and reporting.

- **Overall ERP integration:** Treasury should define interdependencies and any data sourcing issues that may arise from multiple ERP instances.
- **Standardized integration:** The planned systems integration framework should be as standardized as possible to streamline cutover and data consolidation (e.g., integration tools).
- **Exposure reporting strategy:** Treasury should determine the consolidated company reporting requirements needed to support exposure and hedge management.

Treasury should foster strong relationships with internal IT resources, vendor representatives, and implementation/integration specialists to determine whether existing systems can be configured to support operations or if a full-scale TMS implementation is necessary to reach the target end state.

5. Prepare for potential regulatory changes

The ever-changing regulatory landscape has the potential to disrupt a smooth M&A integration, requiring integration teams to spend significant time positioning the new company to comply with current and pending regulations across the globe. Examples of recent changes include increases in central bank reporting, Report of Foreign Bank and Financial Accounts (FBAR), and base erosion profit sharing (BEPS).

Increasing the amount of central bank reporting around capital control and anti-money laundering (AML) regulations may require the Treasury team to maintain clear visibility into cash flows at a country level across entities old and new. The Treasurer's office also should prepare for the increased effort and time needed to gather, aggregate, analyze, and maintain data for Securities and Exchange Commission (SEC) reporting. Neglecting these responsibilities may severely impact the combined company's performance and regulatory standing.

BEPS – an initiative involving almost 90 nations – lays the foundation for a modern international tax framework aimed at taxing profits at the point of economic activity and value-creation. BEPS is expected to drastically affect the ways that liquidity models are structured, while significantly altering repatriation laws and requirements on local banking. At its core, the BEPS project intends to:

- Eliminate tax mismatches so that all income is taxed
- Align profits with value creation
- Increase consistent levels of transparency with tax authorities
- Implement tax law change in a coordinated fashion

There are several BEPS impacts at a company level, including areas that pertain specifically to Treasury:

- Entity financing–debt pushdown, instrument types, interest rates, funding structures
- Local banking requirements
- Working capital management–pooling, factoring, intercompany lending
- Repatriation–timing and manner of moving funds

6. Maintain and improve core Treasury operations

Sooner rather than later, Treasury leaders should determine what core operations can be combined by Day 1. The project plan should include integration execution and tracking for each of the key functions (bank accounts, cash management, risk management, regulatory, etc.).

Control of bank accounts and cash

On Day 1, the buyer's Treasury department should take control of the acquired company's bank accounts, banking portal access, signatories, and subsequent cash. This requires board resolutions, bank acceptances, and updated signature cards. Cash access should be enabled through technology, bank portal access, or account set-up in TMS, to make sure that appropriate control is provided to the acquiring company. Note that the number of the acquired company's banking partners and geographic locations can have a significant impact on the level of effort required to complete this process.

Visibility over cash–positioning and forecasting

Treasury should establish a cash management structure that provides a combined view of the new company's liquidity and cash needs. The time horizon for required visibility varies based on company liquidity and funding strategies. This is important for daily visibility (through bank portals or MT940s) and longer-term cash forecasting. Interim manual solutions may be required to provide full visibility if the legacy companies' technology platforms are still being integrated to enable an automated long-term solution.

To strengthen security around daily cash needs during integration, both acquirer and target companies should establish effective cash positioning processes. All cash movements should be monitored daily; this will aid overall understanding of Foreign Exchange (FX) exposures during the integration period, help identify additional capital needs, and provide insight into future covenant management requirements.

Detailed mid- to long-term cash forecasting is important during integration to give visibility into the combined organization's cash movement and needs. This will help Treasury understand each company's cash management strengths and weaknesses so it can effectively support the combined business. Depending on integration requirements, Treasury may attempt to create a combined cash forecast prior to Day 1. However, expenses may be volatile during integration due to overall project costs, which may lead to more significant deviations than usual. Treasury should regularly follow up with input groups to review these variances. Driving a dialog with other business functions to explain large variations will help further Treasury's knowledge and provide an additional communication channel during and after integration.

Risk management

Early in the M&A process, the Treasury M&A team should develop a clear understanding of what the combined company's treasury risk profile may look like after integration to aid risk mitigation planning. Combined companies can have a very different risk profile than either would as a standalone entity.

It is important to review which daily risk management tools are being used to confirm proper coverage during and after the transition. Examples of liquidity risk are:

- Credit facilities, overdraft lines, and other sources of credit such as commercial paper programs should be reassessed to provide additional short-term liquidity as needed
- Bank guarantees for the new company may have additional requirements, such as the need to have leases for local properties in certain jurisdictions
- FX lines may have to be adjusted or activated due to potentially irregular payment volumes and currencies during integration

Reassessing the new company's foreign currency and interest rate aggregate exposure is critical in managing the company's overall financial risks. Once exposure has been identified the Treasury team can determine which changes may be needed to risk management strategies or hedging executions to satisfy the new company's risk appetite. Changes related to FX risk may include:

- Adjusted hedging limits
- Updated authorized traders or trading limits
- New or revised ISDAs

M&A integration is an optimal time to refresh policies and procedures to align with an evolving risk profile, market standards, and regulatory requirements. Creating a standard and repeatable process for identifying, aggregating, and managing company risk should be a Day 1 focus.

Industry-specific risks

Specific industry requirements may impact how Treasury prioritizes tasks during the integration process:

- Oil and gas– Ensuring the accuracy of short-term forecasts is essential, as drastic swings in oil prices can affect a company's cash levels and needs
- Technology – Companies may encounter intellectual property (IP) location challenges, causing trapped cash issues that require tighter cash management
- Health care – High R&D costs may constrain working capital, creating covenant management challenges
- Financial services– Regulatory capital and liquidity requirements can change drastically based on the integrated institution's size increase
- Private Equity (PE) – Increasing debt-to-earnings ratios obtained in PE-backed buyouts exerts pressure on improving the company's operating matrix to repay debt. Treasury should keep a close eye on liquidity ratios to manage debt covenants. In addition, managing working capital is of paramount importance, as financial sponsors look to achieve returns as early as possible

7. Advise on integration management Establishing goals

Treasury executives should clearly outline Day 1 and end-state integration goals. For Day 1, function leaders should use internal and external resources to make sure that integration activities do not disrupt regular business operations. Specific attention should be paid to the combined company's liquidity needs so that obligations can be met. Treasury leaders also should develop a strategy and implementation plan to capture potential post-Day 1 synergies; for example, identifying and rationalizing duplicative roles and processes.

Planning and blueprinting

During integration visioning sessions, tension may be high as both acquirer and target teams see their Treasury processes as correct. Creating a clear and actionable

framework for session participants to follow and engaging in active listening and collaboration should produce a blueprint that focuses on what is best for the combined company in both the short and long term. In addition, Treasury leadership should empower the Treasury integration management team, which typically is led by the treasurer or the assistant treasurer, to keep the integration on time and within scope.

Operating model

Oftentimes, companies go through an integration with the mindset "we can always change 'X' (process, people, technology) later." However, potential operating model improvements often fall by the wayside if they are not planned in advance. To increase integration effectiveness, team members should prepare both an interim operating model to support Day 1 readiness and a desired end-state model for post-Day 1 optimization. Every effort should be made to reach the desired end state during integration but it shouldn't come at the expense of a successful Day 1.

Treasury department size and sophistication should factor into the integration process. An early-stage company may have only a basic cash management function to incorporate, while a well-established company is likely to have detailed pooling structures, cash management strategies, debt, FX management, treasury technology, or even a fully functioning in-house bank. Company size also affects the number of full time employees (FTEs) that will be needed to support the combined business. While FTE requirements can vary depending on the complexity and scope of Treasury operations, a company typically needs two FTEs per \$1 billion before reaching \$10 billion in revenue; and one FTE per \$1 billion after reaching \$10 billion in revenue. Integration provides an opportunity to streamline Treasury operations and drive greater efficiencies.² The project plan should identify which Treasury activities (and positions) are the most critical to achieving Day 1 readiness and the end-state operating model.

IMO/governance

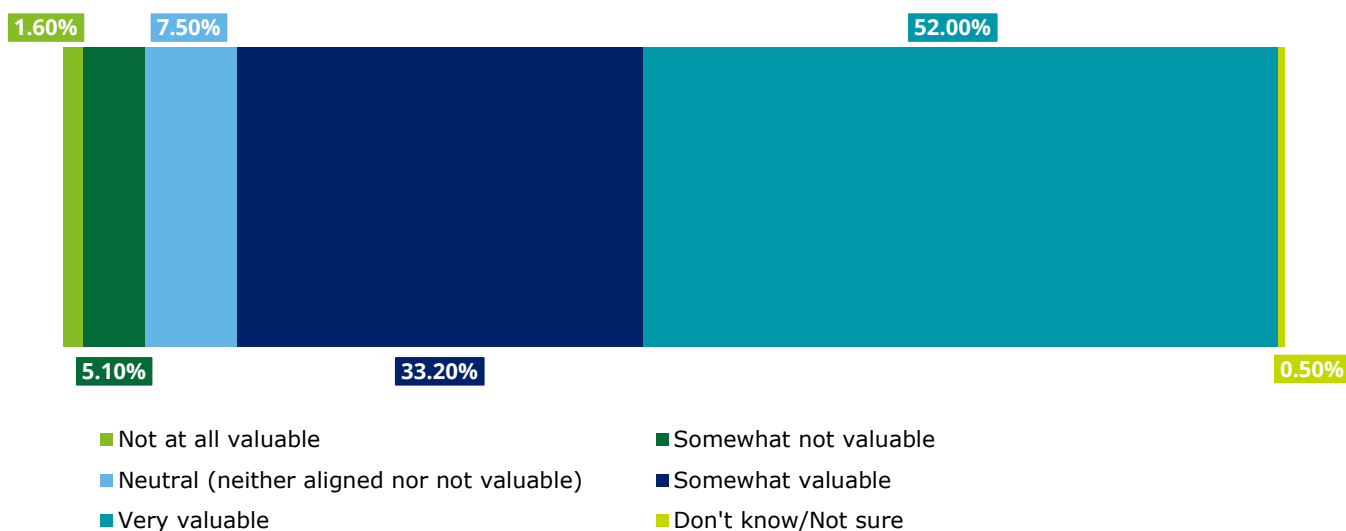
Senior executives should give acquirer and target companies' Treasury leaders clearly defined integration roles and responsibilities, leveraging their treasury expertise and company-specific knowledge. A Treasury integration management office (IMO) should provide project oversight, manage integration work streams, and log, track, and resolve key risk items that may arise (Figure 4). The IMO should serve as the central point of contact for non-Treasury

groups during the integration process to help expedite the flow of information among various departments and functions. Through regular meetings and partnerships with Treasury process owners, the IMO should establish a clearly defined governance model that outlines how the project will be handled from a milestone and risk perspective.

Finally, the Treasury integration team will need to develop budgets to track overall Treasury integration costs against projected amounts. There likely will be expenditures for outside consultants and vendors involved with systems migration and cutover activities. These expenses should be monitored and reviewed on a periodic basis to verify that there is enough value-add to justify costs and that overall project risk management is sufficient.

Figure 4: IMO value

How valuable was the IMO or PMO to the overall success of the integration?



Source: 2015 Deloitte M&A Trends Survey

8. Post-Day 1 optimization Assessing the organization

After Day 1, it is important to maintain focus on future-state Treasury goals and to develop key performance indicators (KPI's) for the business. Among typical metrics:

- Forecasting variance analysis
- Percentage of ACH payments
- Bank fee analysis
- Debt to capital ratio
- Free cash flow
- Debt maturity schedule

These and other metrics can help the Treasury team evaluate how its performance compares to industry leading practices and the desired future state. For example, lenders provide deal financing with the expectation that M&A will increase the acquiring company's synergies and add value. This debt exposes Treasury on covenant management and debt repayment if the company is unable to follow through with a successful integration. This increases the need for Treasury to proactively manage deal risk. Managing debt well by setting up covenant schedules, identifying key providers, and diligently monitoring the integration process can provide an opportunity to showcase Treasury's strategic value to the business.

Plan for post-Day 1 organization optimization

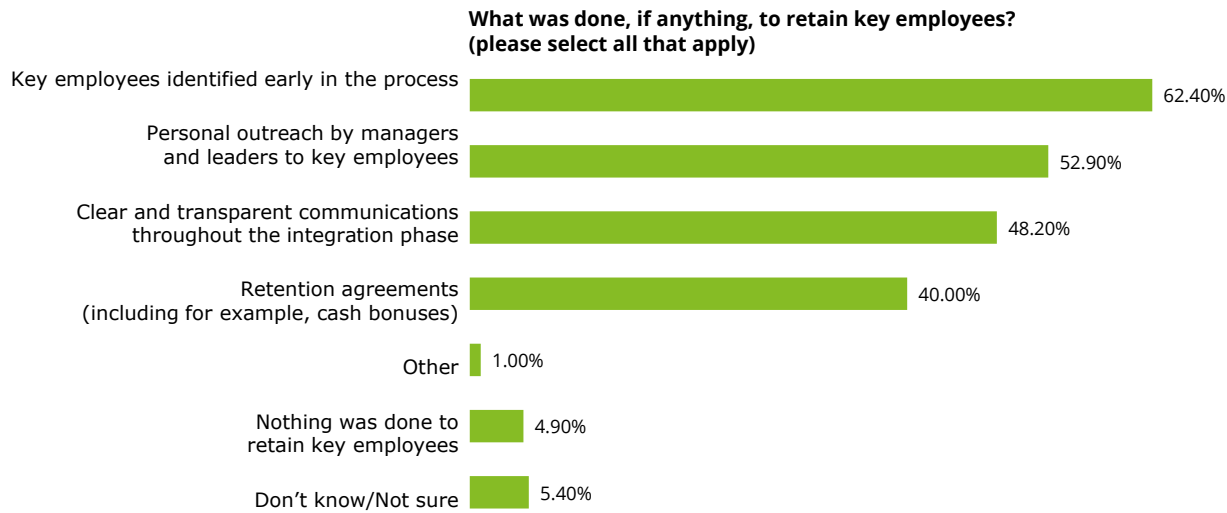
It is important to remember that integration occurs at a fast pace that not all team members may be accustomed to. Treasury leadership should watch for team fatigue and work to maintain employee engagement and productivity. This can be aided by showing employees that they are valued, with frequent interactions and touchpoints to solicit feedback. Transparency, clear

communication (e.g., weekly team meetings and monthly newsletters), and regular management outreach tends to boost morale and productivity. In addition, including valued team members in discussions about Treasury's future state is an effective way to gain buy-in and enhance employee loyalty.

Integrating two companies may lead to dis-synergies such as duplicative processes

or over representation in certain regional areas, which can create the need to right-size the organization to fit the planned future state. These dis-synergies should be quickly identified and eliminated to gain immediate value from the integration process. Treasury can look at different operating models – such as taking on new strategic activities – that can support employee retention (Figure 5).

Figure 5: Organization optimization



Source: 2015 Deloitte M&A Trends Survey



Post-deal synergies

For Day 2 and beyond, the Treasury team should focus on stabilizing and optimizing the new company's infrastructure by completing tasks such as bank account rationalization and bank fee analysis, and managing debt. Post integration there is likely to be an overabundance of bank accounts – a well-executed analysis can lead to cost savings.

Treasury should set target working capital requirements for the combined company, both to achieve forecasted figures and to unlock excess working capital. In highly leveraged transactions, it's even more important, as the cost of capital for this unlocked working capital is much higher. Efforts should be made to look for

opportunities to increase the accounts payable (AP) cycle wherever possible. Partnering with different finance leads and overall project management teams will help them stay abreast of company-wide cost-cutting plans and synergy savings. Also, maintaining awareness of the company's financial status will help produce accurate forecasts to prepare for covenant management. Areas where Treasury should be involved include:

- AR/AP management
- FP&A plans
- Changes to payroll and real estate operations
- Post-integration project management statuses on synergies

To reach desired levels of post-deal synergies and cost effectiveness, companies should focus on:

Figure 6: Post-deal synergies



Moving forward

Both during and after M&A integration, Treasury leaders should position their organization as a strategic partner to the CFO – a partner that can aid operational effectiveness and help drive inorganic growth. Showcasing Treasury's ability to manage debt, unlock cash, and drive cross-functional alignment during an integration can lay the groundwork to expand the function's footprint and support continued value creation.

End Notes

1. Jackson, Gavin, and Joe Rennison. "Bond Issuance to Finance M&A Deals Swells to Record High" Financial Times, 4 Aug. 2015
2. 2015 Deloitte Treasury Survey

Don't drop the ball

Identify and reduce cyber risks during M&A

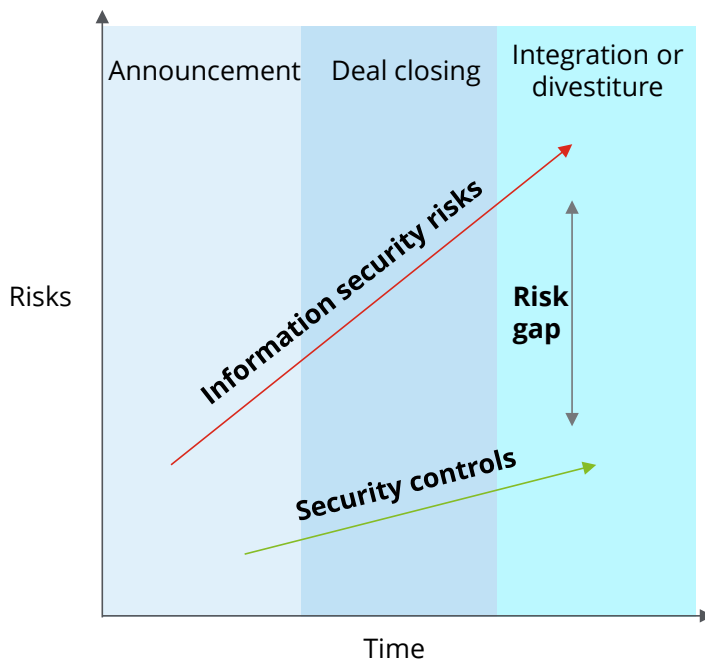
By David Mapgaonkar and Arun Perinkolam

As if M&A deal teams didn't have enough balls to juggle during a transaction's lifecycle, today's complex and porous digital marketplace is tossing in one more – increased cyber risk. Every stage of M&A – strategy, screening, due diligence,

transaction execution, and integration – is subject to heightened risk for cyber threats and attacks which, if not discovered and defused, could harm both the acquirer and target...and even scuttle the deal.



Figure 1: Cyber risks in the M&A lifecycle



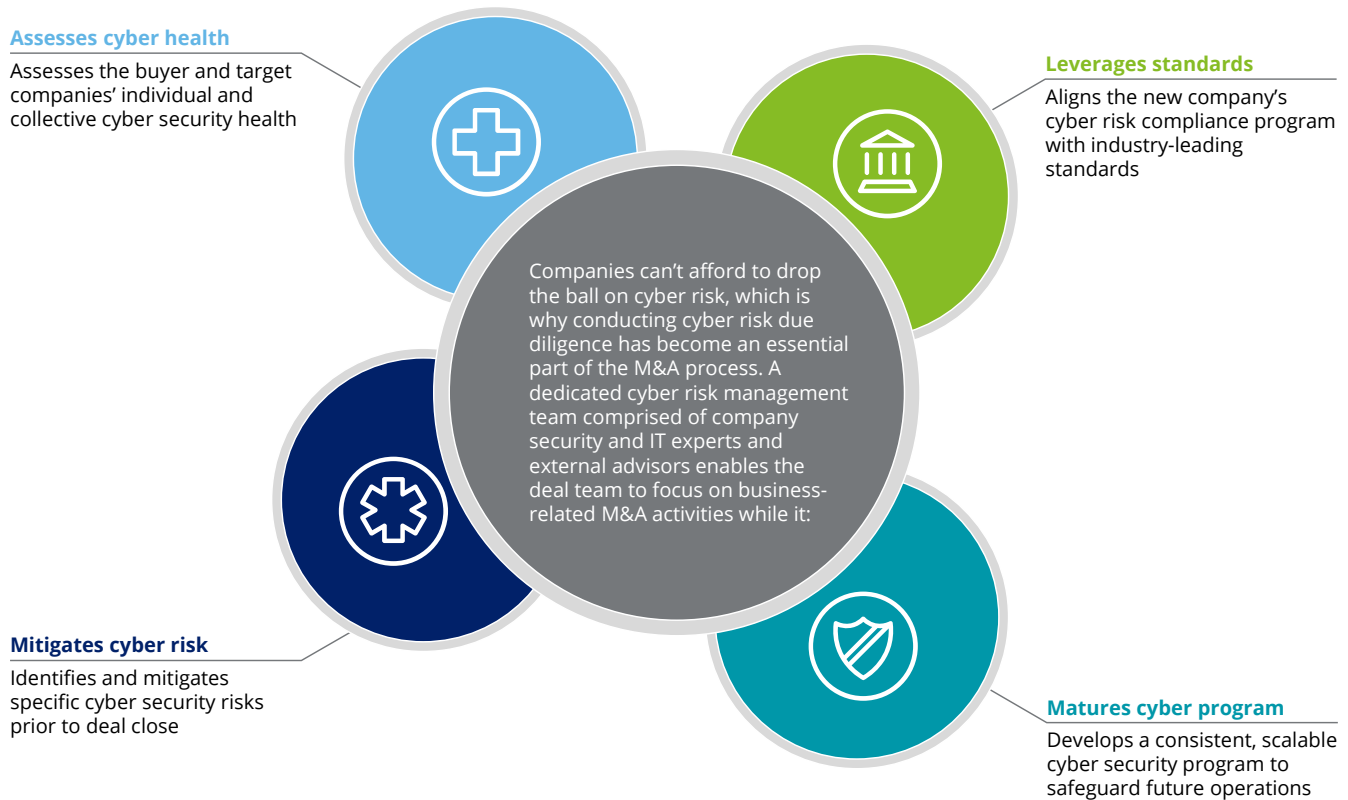
Source: Deloitte & Touche LLP, 2016

Cyber risks vary from one M&A lifecycle stage to the next, and may be generated both internally and externally. Common risks include:

- Targeting from a cyber threat actor leading to damaged reputation with Wall Street and potential stock devaluation;
- Failure to understand and mitigate deep cyber shortcomings (including legal and regulatory risks) in the target company;
- Reaching a deal price that does not accurately reflect the cyber health and robustness of the seller's networks and systems that will form the basis for a new division of the acquiring company;
- Unknowingly exposing the acquirer's enterprise network to threat of cyber attack when integrating potentially antiquated and unpatched systems and IT assets of the target company

Engaging the cyber risk management team prior to initiating the M&A process can provide strategic value at each stage in the deal lifecycle.

Figure 2: Cyber risk due diligence



M&A strategy

Prior to launching an M&A transaction, the cyber risk management team should develop a corporate risk assessment strategy and playbook to guide cyber risk-related due diligence consistently for each potential M&A target, with defined requirements and expectations for cyber risk controls. This playbook can help reduce the level of ad hoc and deal-specific project planning and increase the speed and reliability of the company's overall cyber due diligence process. Once this pre-planning is complete, acquisition targets can be sought out and compared to the existing strategy.

Playbooks are typically comprised of two major components: the cyber risk due diligence approach and the associated tools and templates. The due diligence approach identifies organization-specific drivers to align the cyber risk due diligence with broader corporate strategy. To enable the most effective results, the approach should lay out high-level timelines and milestones

and identify a core team of subject matter experts for each deal. The timelines and milestones should be flexible enough to recognize variable deal complexity (e.g., a complete merger of overlapping business functions between two highly-regulated companies is likely be more complex and multidimensional than a straightforward purchase of IP assets in a non-regulated industry).

The tools and templates section of the playbook should identify and include documentation and reference materials for executing the approach, including a cyber assessment framework, checklists to enable and track information requests, sample questions, and project management templates.

Screening and due diligence

Once a potential acquisition target has been identified, the next phases typically involve target screening and in-depth due diligence. Target screening identifies potential acquisition candidates, or potential acquirers for a company wishing to sell itself entirely or in part. Due diligence provides the opportunity for the acquirer to conduct discovery on the acquisition target, including analyzing or financial stability and health, review of cyber risk and infrastructure, or interaction with acquisition target leadership to gauge interest in an M&A transaction.

A number of tools and methodologies are available to support target screening. Activities often include conducting high-level research to create a target company's threat profile, identifying instances of historical cyber risks (e.g., published examples of breaches), and providing industry-level insights. The resulting report should be helpful in driving and/or scoping follow-on due diligence efforts.

Once a target has been selected and passed through the initial screening, due diligence is fully initiated, and the cyber risk management team should coordinate the due diligence activities related to cyber risk. At a foundational level, cyber risk assessment activities typically employ a custom-designed framework that leverages industry leading practices, globally recognized standards, and unique requirements that reflect the acquiring company's deal drivers. The framework should facilitate a holistic review of a target's cyber risk, including an in-depth analysis of its IT governance, operations, information security, business continuity, physical security, and overall risk posture.

The assessment generally consists of three core methods that may be used in parallel: offline document and system review (typically handled via a virtual data room), onsite workshops, and cyber risk profiling. One or more of these methods may not be appropriate or necessary in all contexts, however, as every deal has its own nuances and complexities. The offline document and system review includes analyzing documentation, resources, and artifacts (e.g., system architecture documents, information assets) to develop an understanding of the acquisition target's environment and identify preliminary findings and remediation opportunities. In addition to the document review, the cyber risk management team may determine it appropriate to conduct vulnerability assessments and penetration testing on the target's IT systems. While this testing typically focuses on perimeter weaknesses, the scope and scale can be readily adjusted to fit the situation.

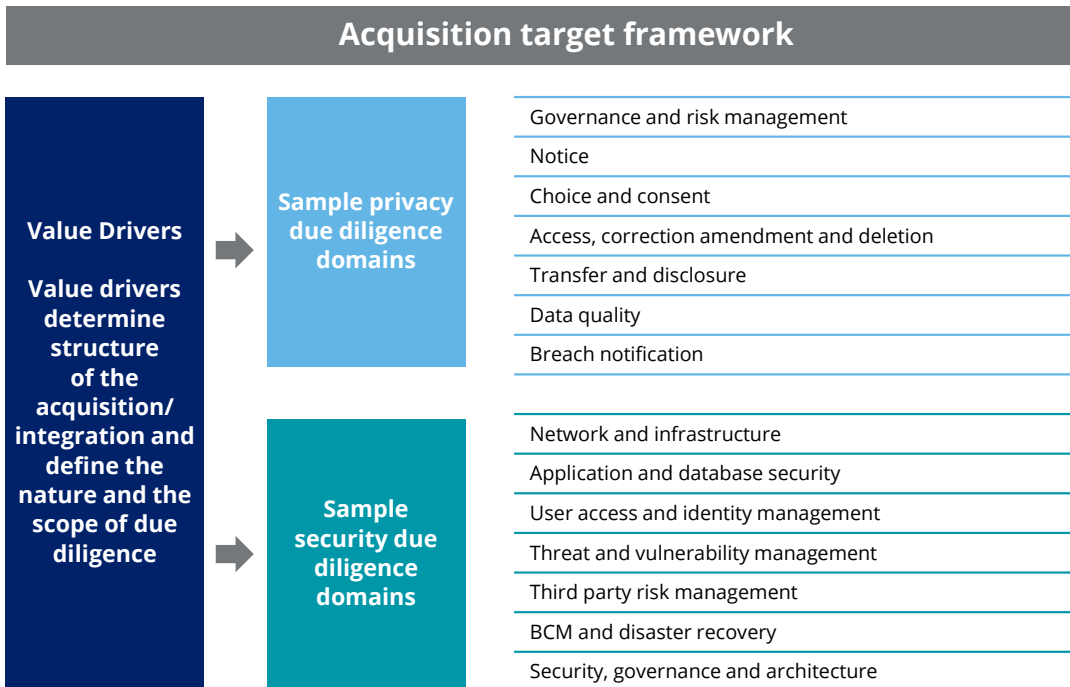
The second core method is the onsite workshops, which typically take place at the acquisition target's corporate facilities, including data centers, where appropriate. The cyber risk management team meets directly with leadership, management, and subject matter experts to identify and discuss risks, findings, and remediation opportunities. In some cases, the acquiring company will send additional representatives. When this occurs, the risk management team will typically operate as a central project management office (PMO) to coordinate schedules, align content to reduce overlap, and lead workshop activities.

The final assessment method – cyber risk profiling – includes two avenues: cyber reconnaissance and compromise diagnostics. With the acquisition of the target company's assets, the acquiring company also receives certain aspects of the target's threat profile. Cyber reconnaissance and threat profiling can assist in identifying techniques, tactics, and procedures that threat actors employ against companies experiencing large-scale, organizational change. Cyber reconnaissance provides a company undergoing a transformation a point-in-time assessment of its exposure to cyber threats by assessing the company's assets across relevant intelligence sources. Reconnaissance typically includes conducting threat assessments that leverage ethical hacking and penetration testing techniques, and that use open, closed, and proprietary sources and underground criminal forums. The resulting cyber threat profile provides insight into the criticalities that threat actors may target and how.

Based on knowledge gleaned from the reconnaissance and threat profile, the acquiring company may wish to perform a gap analysis and cyber diagnostic to determine if the target is already compromised. Advanced attackers specifically evade the cyber risk tools and technologies companies traditionally leverage. With this in mind, a diagnostic can review the target's environment to identify active or dormant threats present on its computer systems and networks. The review assesses endpoints and network traffic transiting between the target organization's networks and the Internet. It deploys agent-based endpoint technology to all desktops, laptops and servers to search and review for potential Indicators of Compromise to identify anomalies, malware, vulnerabilities, or other conditions that would pose a threat to the organization.

Once the risk management team has completed assessment activities, it may compile a cyber risk mitigation plan that includes a detailed review of each risk with prioritized tactical steps for remediation. The plan also identifies suggested owners for remediation activities, forecasts costs, and may even recommend a preliminary end-state IT infrastructure to support cyber risk-related integration activities.

Figure 3: Acquisition target framework

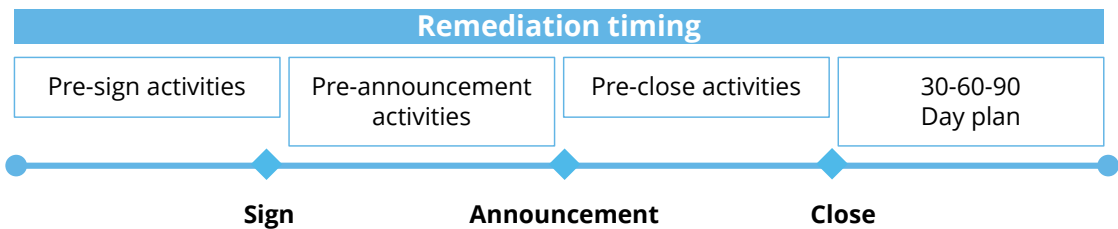


In some cases, this remediation plan may require mitigation activities prior to Day 1, but usually after the deal is signed. These mitigation activities are tailored to address the highest severity risks, especially those that may lead to issues. When identifying these activities, the risk management team should account for additional activity and interest from threat actors that can occur once the acquisition is publicly announced.

Finally, the remediation plan may also be used as leverage in the deal-making process itself. The costs associated with remediation of significant cyber risks may be used as a lever to reduce the overall acquisition costs. For example, if the acquisition target requires the development and implementation of a network demilitarized zone (DMZ) to be stable on Day 1, some or all of the costs of that project may be

subtracted from the overall valuation of that company. This process requires careful coordination between company leadership and cyber risk management subject matter experts in order to convey the appropriate messaging to the acquisition target, syndicates and attorneys involved.

Figure 4: Remediation timing



Transaction execution

The cyber risk management team's involvement in an M&A transaction does not end after target screening and due diligence. The acquirer's prime objective in this phase is to facilitate an uneventful, issue-free Day 1. During this phase, the deal team may ask for assistance with cyber risk remediation activities and advise on integration plans for network architecture, and support technology (e.g., e-mail servers, human resources systems). Tasks may include reviewing the asset inventory developed during the due diligence phase to outline recommendations for logical and physical access provisioning, and identifying, developing, and implementing controls and processes to support Day 1 activities. Other relevant activities include reviewing critical system redundancies, planning for back-up and storage requirements, creating incident response procedures, and ramping-up cyber threat monitoring and vulnerability management capabilities.

Integration

An issue-free integration starts long before an M&A deal closes. Both companies participate in the integration process, where the two entities are merged according to the terms of the deal and the overall M&A strategy of the acquirer. The cyber risk assessment results may prompt the newly combined company's IT and cyber security staff to address a number of findings, improvement opportunities, and integration activities. To drive this effort, remediation and integration activities are typically summarized in a prioritized "30-60-90 plan," with target milestones laid out at 30-days post-close, 60-days post-close, 90-days post-close, and beyond.

Within the first 30-days post-close, the IT and security teams should address critical or high risk remediation activities, especially in cases where onsite remediation cannot occur prior to Day 1. Activities usually include developing strong perimeter security, addressing substantial gaps in business continuity, and closing critical or high-risk vulnerabilities. Additionally, the end-state cyber risk infrastructure should

be developed and revised, with foundational technologies and devices implemented as needed.

Once the 30-day milestones have been addressed, the 60-day and 90-day activities should include re-testing and re-assessing solutions implemented as part of the earlier plan, and performing additional remediation for medium- and low-risk findings and vulnerabilities. Issues vary greatly from company to company and typically are prioritized based on factors unique to that environment. Finally, the cyber risk management team should play a key role in safeguarding the new company's IT systems, applications, and online presence. Common responsibilities include:

Identity and access management

M&A typically spawns reorganization and restructuring, which require heightened identity and access supervision. Ongoing identity and access management (IAM) services facilitate administration throughout the user lifecycle, from on-boarding to off-boarding enterprise users (e.g., employees, contractors, vendors, customers). Along with identify management comes the need to administer and monitor access privileges and roles. Access management is critical to organizations that may be shifting large amounts of enterprise resources. Services include access control and configuration support, and maintaining user profiles, entitlements, and application access rules. Familiarity with the leading IAM technology vendors, such as Oracle, IBM, CA, SailPoint, EMC/RSA, CyberArk, Lieberman, is also key to effectively implementing an IAM solution.

Enterprise application integrity

A company merger can present a challenge to managing and protecting critical assets due, in part, to evolving threats that accompany the integration of business environments. A portion of this challenge is related to enterprise resource planning (ERP). When expanding and extending beyond traditional corporate IT borders, it is critical to address ERP system security, privacy, control, and compliance requirements. Enterprise application

integrity (EAI) services help promote data security across the application ecosystem and within related business processes.

Managed Threat and SIEM

Organizations must remain ever-vigilant to cyber security threats. This means having overarching visibility and pre-emptive threat insights to detect known and unknown adversarial activity. To be able to accomplish this, the cyber risk team should work with internal and external resources to develop managed threat services (MTS) solutions that enhance in-house capabilities and increase the value of Security Information & Event Management (SIEM).

Threat intelligence analytics

A company's ability to manage cyber threats and have a trusted SIEM operation depends heavily upon its ability to operationalize an organization's cyber threat intelligence program. During and after M&A activity, mitigating business risk should be a priority that requires timely, insightful, and predictive analysis tailored to the company's changing environment. Effective, actionable threat intelligence analytics provides the context and prioritization necessary to support recommendations for risk mitigation.

Don't drop the (cyber) ball

Conducting cyber risk due diligence has become an essential part of the M&A process. A dedicated cyber risk management team can provide strategic value at each stage in the deal lifecycle by assessing, identifying, and reducing potential cyber security risks prior to and after deal close.

Authors

Mike Armstrong

Director, Monitor Deloitte
Deloitte Consulting LLP
mikearmstrong@deloitte.com

Robert Call

Partner
Deloitte Tax LLP
rcall@deloitte.com

Jonathan Goodman

Partner
Monitor Deloitte Canada
jwgoodman@deloitte.ca

Iain Bamford

Principal
Deloitte Consulting LLP
ibamford@deloitte.com

Barry Chen

Senior Manager
Deloitte Consulting LLP
bachen@deloitte.com

Sarah Hindley

Principal
Deloitte Consulting LLP
sahindley@deloitte.com

Srini Bangalore

Principal
Deloitte Consulting LLP
sbangalore@deloitte.com

Nik Chickermane

Principal
Deloitte Consulting LLP
nchickermane@deloitte.com

Chris Houser

Partner
Deloitte Tax LLP
chooser@deloitte.com

Brett Beckett

Senior Manager
Deloitte Consulting LLP
brbeckett@deloitte.com

William Engelbrecht

Principal
Deloitte Consulting LLP
wengelbrecht@deloitte.com

Steve Joiner

Partner
Deloitte & Touche LLP
sjoiner@deloitte.com

Pam Beckey

Partner
Deloitte Tax LLP
pbeckey@deloitte.com

Eileen Fernandez

Principal
Deloitte Consulting LLP
efernandes@deloitte.com

Tom Joseph

Principal
Deloitte Consulting LLP
tjoseph@deloitte.com

Bruce Brown

Principal
Deloitte Consulting LLP
brubrown@deloitte.com

Mike Fuchs

Principal
Deloitte Consulting LLP
mfuchs@deloitte.com

Chi Yun Lee

Senior Manager
Deloitte & Touche LLP
chiylee@deloitte.com

Davi Bryan

Senior Manager
Deloitte Consulting LLP
dabryan@deloitte.com

Chris Gilbert

Senior Manager
Deloitte Consulting LLP
chrgilbert@deloitte.com

Gavin McTavish

Senior Manager
Monitor Deloitte Canada
gmctavish@deloitte.ca

Steve Maddox

Senior Manager
Deloitte Consulting LLP
smaddox@deloitte.com

Raghav Ranjan

Senior Manager
Deloitte Consulting LLP
ragranjan@deloitte.com

Tom Seliga

Senior Manager
Deloitte Consulting LLP
tseliga@deloitte.com

Steve Mangal

Senior Manager
Deloitte Consulting LLP
stepmangal@deloitte.com

Stephen Redwood

Principal
Deloitte Consulting LLP
sredwood@deloitte.com

Tanay Shah

Senior Manager
Deloitte Consulting LLP
tanshah@deloitte.com

Cliff Mansfield

Senior Manager
Deloitte Consulting LLP
clmansfield@deloitte.com

Ami Rich

Senior Manager
Deloitte Consulting LLP
arich@deloitte.com

Gaurav Sharma

Senior Manager
Deloitte & Touche LLP
gauravsharma36@deloitte.com

David Mapgaonkar

Principal
Deloitte & Touche LLP
dmapgaonkar@deloitte.com

David Russ

Managing Director
Deloitte Consulting LLP
druss@deloitte.com

Carina Ruiz Singh

Partner
Deloitte & Touche LLP
caruiz@deloitte.com

Olivier May

Principal
Deloitte Consulting LLP
omay@deloitte.com

Joel Schlachtenhaufen

Principal
Deloitte Consulting LLP
schlachtenhaufen@deloitte.com

Mark Sirower

Principal
Deloitte Consulting LLP
msirower@deloitte.com

Don Miller

Managing Director
Deloitte Consulting LLP
domiller@deloitte.com

Kurt Schmid

Principal
Deloitte Consulting LLP
kschmid@deloitte.com

Steve Tarrant

Partner
Deloitte Tax LLP
starrant@deloitte.com

Arun Perinkolam

Principal
Deloitte & Touche LLP
aperinkolam@deloitte.com

Steve Schultz

Senior Manager
Deloitte Consulting LLP
sschultz@deloitte.com

Will Tarry

Principal
Deloitte Consulting LLP
wtarry@deloitte.com

M&A Making the deal work

Matt Usdin

Principal

Deloitte Consulting LLP

musdin@deloitte.com

Mike Willkin

Principal

Deloitte Consulting LLP

mwillkin@deloitte.com

Nate Windom

Senior Manager

Deloitte Consulting LLP

nwindom@deloitte.com

Integration Leadership

Global M&A Consultative Services Leader

Larry Hitchcock

111 S. Wacker Drive
Chicago, IL 60606-4301
+1 312 486 2202
lhitchcock@deloitte.com

National M&A Service Leader

Jeff Weirens

50 S. 6th St., Ste. 2800
Minneapolis, MN 55402
+1 212 436 4671
jweirens@deloitte.com

Managing Principal M&A Consulting Services

Trevar Thomas

1111 Bagby Street
Houston, TX 77002-4196
+1 713 982 4761
trethomas@deloitte.com

National Managing Partner M&A Services

Russell Thomson

30 Rockefeller Plaza
New York, NY 10112-0015
+1 713 982 4761
rthomson@deloitte.com

Integration Service Offerings Leaders

Advisory MACS

Carina Ruiz-Singh

225 West Santa Clara Street
San Jose, CA 95113-2303
+1 408 704 2158
caruiz@deloitte.com

M&A Digital

Olivier May

111 S. Wacker Drive Chicago, IL
60606-4301
+1 312 486 2677
omay@deloitte.com

M&A Strategy

William Engelbrecht

695 Town Center Drive
Costa Mesa, CA 92626
+1 714 436 7619
wiengelbrecht@deloitte.com

M&A Commercial Due Diligence

Mark Sirower

30 Rockefeller Plaza
New York, NY 10112-0015
+1 212 313 1595
msirower@deloitte.com

M&A Operational Due Diligence

Shashi Yadavalli

127 Public Square
Cleveland, OH 44114-1291
+1 216 830 6727
syadavalli@deloitte.com

M&A Growth (Sales & Marketing)

Nik Chickermane

555 Mission St.
San Francisco, CA 94105-0920
+1 415 783 6266
nchickermane@deloitte.com

M&A Human Capital

Matthew Usdin

30 Rockefeller Plaza
New York, NY 10112-0015
+1 212 618 4884
musdin@deloitte.com

M&A Human Capital Due Diligence

Dan Rudin

30 Rockefeller Plaza
New York, NY 10112-0015
+1 212 618 4365
drudin@deloitte.com

M&A Information Technology

Asish Ramchandran

695 Town Center Drive
Costa Mesa, CA 92626
+1 714 913 1220
aramchandran@deloitte.com

M&A Information Technology Due Diligence

James "Mark" Andrews

1700 Market Street
Philadelphia, PA 19103-3984
+1.215.789.2757
jaandrews@deloitte.com

M&A Finance

William Tarry

30 Rockefeller Plaza
New York, NY 10112-0015
+1 212 618 4821
wtarry@deloitte.com

M&A Supply Chain & Manufacturing

Kurt Schmid

50 S. 6th St., Ste. 2800
Minneapolis, MN 55402
+1 612 397 4440
kschmid@deloitte.com

Tax Leader

Pam Beckey

200 Berkeley Street
Boston, MA 02116
+1 617 437 3284
pbeckey@deloitte.com

**Aerospace & Defense,
Industrial Products & Services**

Bhuvanesh Abrol

555 West 5th Street, Ste. 2700
Los Angeles, CA 90013-1010
+1 213 593 3783 babrol@deloitte.com

**Automotive, Chemicals &
Specialty Materials**

Tom Williamson

111 S. Wacker Drive Chicago, IL
60606-4301
+1 312 486 2659
twilliamson@deloitte.com

**Consumer Products, Retail,
Wholesale & Distribution**

Shashi Yadavalli

127 Public Square
Cleveland, OH 44114-1291
+1 216 830 6727
syadavalli@deloitte.com

Energy

Trevar Thomas

1111 Bagby Street,
Houston, TX 77002-4196
+1 713 982 4761
trethomas@deloitte.com

**Financial Services, Banking &
Securities**

Paul Legere

111 S. Wacker Drive Chicago, IL
60606-4301
+1 312 486 2289
plegere@deloitte.com

Health Plans

Ollie McCoy

191 Peachtree St., Ste. 2000
Atlanta, GA 30303-1749
+1 404 220 1582
omccoy@deloitte.com

Healthcare & Life Sciences

Susan Dettmar

1750 Tysons Blvd.
McLean, VA 22102-4219
+1 703 251 1620
sdettmar@deloitte.com

Insurance

Boris Lukan

111 S. Wacker Drive Chicago, IL
60606-4301
+1 312 486 3289
blukan@deloitte.com

Investment Management

Sridhar Rajan

30 Rockefeller Plaza
New York, NY 10112-0015
+1 212 3131653
srrajan@deloitte.com

Media

Iain Bamford

200 Berkeley Street
Boston, MA 02116
+1 617 437 2930
ibamford@deloitte.com

Providers

Clark Knapp

191 Peachtree St., Ste. 2000
Atlanta, GA 30303-1749
+1 404 631 2811
clknapp@deloitte.com

Real Estate

Francisco Acoba

30 Rockefeller Plaza
New York, NY 10112-0015
+1 212 618 4432
facoba@deloitte.com

Public Sector, State & Local

Mark Price

200 Berkeley St.
Boston, MA 02116
+1 617 585 5984
maprice@deloitte.com

Technology

Joost Krikhaar

555 Mission St.
San Francisco, CA 94105-0920
+1 415 783 6860
jkrikhaar@deloitte.com

Telecommunications

Marco Sguazzin

555 Mission St.
San Francisco, CA 94105-0920
+1 415 783 4091 masguazzin@deloitte.com

Travel, Hospitality & Services

Shashi Yadavalli

127 Public Square
Cleveland, OH 44114-1291
+1 216 830 6727
syadavalli@deloitte.com

M&A *Institute*

About the Deloitte M&A Institute

The Deloitte M&A Institute is a community of clients and practitioners focused on increasing the value derived from M&A activities, powered by Deloitte's M&A Services capabilities. The Institute serves as a platform to build connections, showcase thought leadership, and accelerate experience and learning for those involved.

Deloitte.

As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.